

Press Release

Sterimax Engineering Private Limited (SEPL)

14 February, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA BB+ / Negative (Rating Reaffirmed, Outlook Revised to Negative)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB+**' (read as SMERA double B plus) on the above Rs. 6.39 crore bank facilities and assigned rating of **SMERA BB+ (read as SMERA double B plus)** on the Rs. 3.11 crore bank facilities of Sterimax Engineering Private Limited (SEPL). The outlook is '**Negative**'.

Sterimax Engineering Private Limited (SEPL), incorporated in 2013 is engaged in the manufacture of Blow Seal Fill (BSF) machines and moulds at Navi Mumbai (Maharashtra). The company caters to pharma companies.

Revision of Outlook:

SMERA has revised the outlook to '**Negative**' from '**Stable**' on account of sharp decline in revenue over the previous year and major project implementation risk. The outlook is likely to continue over the near to medium term. Further decline in revenue or delay in project implementation affecting future cash flows that impact the debt servicing ability could result in downward revision of the rating. Conversely, significant and sustainable improvement in revenue, higher net cash accruals and debt protection metrics, successful project commencement generating timely cash flows that enable the company to meet debt obligations may entail a revision of the outlook to **Stable**.

Key Rating Drivers

Strengths

Experienced management: SEPL was incorporated in 2013. The company is promoted by Mr. Ashok Chavan and Mrs. Sucheta Chavan who possess experience of around 20 years in the pharmaceutical industry. SMERA believes that SEPL will continue to benefit from its established position and experienced management.

Healthy profitability: The company registered healthy profit margins during the period under study. The margins increased to 27.89 percent in FY2017 from 19.35 percent in FY2016 and 15.37 percent in FY2015 on account of healthy realisation from sale of machines. Moreover, the company registered healthy PAT margins of 10.09 per cent in FY2017 and 11.33 per cent in the previous year. The decline in the margins were mainly due to increase in finance cost.

Above average financial risk profile

The above average financial risk profile is marked by networth of Rs.6.77 crore as on 31 March, 2017 as against Rs. 5.11 crore as on 31 March, 2016. The gearing (debt-to-equity ratio) stood at 1.31 times as on 31 March, 2017 as against 1.99 times as on 31 March, 2016. The total debt of Rs.8.89 crore includes term loan of Rs.6.96 crore, Current portion of long term debt (CPLTD) of Rs. 1.44 crore and short term working capital borrowings of Rs. 0.49 crore as on 31 March, 2017.

The Interest Coverage Ratio (ICR) stood moderate however it declined to 4.24 times in FY2017 as against 15.77 times in FY2016 on account of increase in finance cost. The Net Cash Accruals to Total Debt (NCA to TD) stood at 0.26 times in FY2017 as against 0.44 times in FY2016. The debt to EBITDA ratio stood at 1.94 times as against 1.46 times in 2016.

SMERA expects that the gearing will remain moderate in the medium term on account of additional debt funded capex.

Weaknesses

Significant fall in revenue: SEPL registered a significant fall in revenue of 54.39 percent in FY2017 over FY2016. The operating revenue declined to Rs.16.44 crore in FY2017 from Rs.36.06 crore in FY2016 which is attributed to demonetisation during November and December 2016 resulting in cancellation of orders from customers. However, the company registered revenue of Rs.17 crore for the period April to Dec 17.

Working capital intensive operations: The operations are working capital intensive marked by Gross Current Asset days of 229 during FY2017 compared to 174 days in FY2016. This necessitates working capital requirements as major funds gets blocked in debtors and other current assets. The debtor days stood at 109 and 135 respectively in FY2017 and FY2016.

Foreign exchange fluctuation risk: Around 70 percent of the raw material is imported from European countries hence the profit margins are susceptible to foreign exchange fluctuation risk. However, the company makes advance payments for procurement.

Project implementation risk: The company has planned capex and undertaken third party manufacturing contract for pharma companies. The total project cost of Rs.16.00 crore is expected to be funded through a term loan of Rs.7.00 crore in FY2017-18 and the rest by liquidating fixed deposits of Rs.5.00 crore with the balance to be funded by internal accruals. The project is expected to be completed by July, 2018. The company is exposed to significant project execution risk in case of time and cost overruns or delay in debt tie-up.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of SEPL.

Outlook: Negative

SMERA believes that the outlook of SEPL will remain 'Negative' over the medium term. The rating may be downgraded in case of further decline in revenue and margins or delay in project implementation affecting future cash flows thereby impacting debt servicing. Conversely, the outlook may be revised to 'Stable' in case of significant improvement in revenue with higher net cash accruals, debt protection metrics with successfully commencement of the project as per the expected date.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	16.44	36.06	6.90
EBITDA	Rs. Cr.	4.59	6.98	1.06
PAT	Rs. Cr.	1.66	4.09	0.50
EBITDA Margin	(%)	27.89	19.35	15.37
PAT Margin	(%)	10.09	11.33	7.27
ROCE	(%)	25.46	80.36	75.74
Total Debt/Tangible Net Worth	Times	1.31	1.99	0.05
PBDIT/Interest	Times	4.24	15.77	11.93
Total Debt/PBDIT	Times	1.94	1.46	0.05
Gross Current Assets (Days)	Days	229	174	700

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09 -Aug, 2017	Cash Credit	Long Term	1.00	SMERA BB+ (Indicative)
	Term Loan	Long Term	8.50	SMERA BB+ (Indicative)
12-May, 2016	Cash Credit	Long Term	1.00	SMERA BB+ / Stable (Assigned)
	Term Loan	Long Term	8.50	SMERA BB+ / Stable (Assigned)

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB+ / Negative (Rating Reaffirmed, and outlook revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.39	SMERA BB+ / Negative

					(Rating Reaffirmed, and outlook revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.11	SMERA BB+/ Negative (Assigned)

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ABOUT SMERA

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