

## Press Release

### System Controls Technology Solutions Private Limited

March 11, 2019



### Rating Downgraded, Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.11.00 Cr
<b>Long Term Rating</b>	ACUITE BB/Negative (Downgraded from ACUITE BB+/Stable)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\*Refer Annexure for details

### Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**ACUITE BB+**' (read as **ACUITE Double B plus**) and reaffirmed short term rating of '**ACUITE A4+**' (read as **ACUITE A four Plus**) to the Rs. 10.00 crore bank facilities of SYSTEM CONTROLS TECHNOLOGY SOLUTIONS PRIVATE LIMITED (SCPL). The outlook is revised to '**Negative**' from '**Stable**'.

Further, Acuité has assigned short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 1.00 crore bank facilities of SCPL.

The rating downgrade is on account of steep decline in revenues and profitability for FY2019. The company has booked Operating loss of Rs.3.06 crore and net loss of Rs.3.82 crore for the period under study from April to December, 2018. Also, its revenues were volatile and declined from Rs.20.64 crore in FY2018 to Rs.8.46 crore from April to December, 2018. Since the company has orders in hand which are expected to be completed by March 2019, the cash flows of the company might get impacted. However, the ratings factor in the experienced management, long track record of operations and reputed clientele. The ratings are constrained by declining revenues and highly competitive and fragmented industry.

SCPL, a Bangalore based private limited company was incorporated in 2011 and promoted by Mr. Francis Xavier and Mrs. Meena Francis. The company is engaged in providing Motion Control Technologies, Automation and System Solutions to Defence, Aeronautical, Aerospace, Telecom, Railways and Nuclear Energy Sectors.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of SCPL to arrive at the rating.

### Key Rating Drivers

#### Strength

- **Experienced management**

Mr. Francis Xavier has experience of over three decades in Motion Control Technologies, Automation and providing System Solutions to Defence, Aeronautical, Aerospace, Telecom, Railways and Energy Sectors.

- **Reputed customer base**

The company has well established relationships with Defence Research & Development Organisations, Indian Space Research Centres, Public Sector Undertakings such as HAL, BEL, BEML and reputed private organisations including L&T and TATA Power.

- **Average financial risk profile**

SCPL has average financial risk profile marked by its gearing and coverage indicators. Gearing (Debt-to Equity) stood at 1.27 times as on March 31, 2018 as against the 1.53 times as on March 31, 2017. Total debt of Rs. 6.57 crore mainly comprises of working capital borrowings of Rs.3.63 crore and term loan of Rs.2.95 crore as on 31

March, 2018. ICR (Interest Coverage Ratio) stood at 2.70 times in FY2018 as against 2.37 times in FY2017. Further, Tangible Net Worth stood at Rs.5.19 crore as on 31 March, 2018.

## Weaknesses

### • Declining revenue trend and declining profitability

SCPL has booked revenues of Rs.20.64 crore in FY2018 compared to Rs.21.12 crore in FY2017. Further, in FY2019 (Provisional), the company has booked revenues of Rs.10.96 crore from April to February, 2019. The fluctuation in revenues is due to change in revenue mix. Further, the company has registered operating loss of Rs.3.06 crore and net loss of Rs.3.82 crore for 9MFY2019.

### • Working capital intensive operations

SCPL's operations are working capital intensive marked by high GCA of 210 days in FY2018 compared to 239 days in FY2017. The GCA days are mainly dominated by high inventory of 116 days in FY2018 compared to 140 days in FY2017. The high inventory days are mainly because the company has to maintain Research and development stock. Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

### • Presence in highly fragmented and competitive industry

SCPL operates in a competitive and fragmented industry. The company faces tough competition from various large and small players in the market.

## Liquidity Position:

SCPL has deteriorating liquidity profile marked by modest cash accruals and almost full bank limit utilisation. The company has reported net cash accruals of Rs.1.50 crore in FY2018 and negative for the current year from April to December, 2018. Stretched working capital management lead to almost full utilisation of its bank lines at about 98 per cent.

## Outlook: Negative

Acuite believes the outlook to be 'Negative' on account of declining revenues and low operational performance in the current year. The rating may be downgraded in case the company exhibits lower than expected revenue growth and profitability. Conversely, the outlook will be revised to 'Stable' in case of significant and sustainable improvement in revenues, improvement in financial risk profile from existing levels and comfortable working capital cycle.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	20.64	21.12	16.67
EBITDA	Rs. Cr.	2.67	1.73	1.76
PAT	Rs. Cr.	1.36	0.69	0.48
EBITDA Margin	(%)	12.94	8.20	10.56
PAT Margin	(%)	6.59	3.28	2.90
ROCE	(%)	25.42	15.51	14.02
Total Debt/Tangible Net Worth	Times	1.27	1.53	3.23
PBDIT/Interest	Times	2.70	2.37	1.95
Total Debt/PBDIT	Times	2.32	2.94	5.18
Gross Current Assets (Days)	Days	210	239	360

## Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Feb-2018	Cash Credit	Long Term	5.00	ACUITE BB+ /Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (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	5.00	ACUITE BB/ Negative (Downgraded from ACUITE BB+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00 (Enhanced from 5.00)	ACUITE A4+ (Reaffirmed)

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### About Acuité Ratings & Research:

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