

Press Release

System Controls Technology Solutions Private Limited

March 11, 2021



Rating downgraded and assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr. (Enhanced from Rs.11.00 Crore)
Long Term Rating	ACUITE BB-/Stable (Downgraded and assigned)
Short Term Rating	ACUITE A4 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 12.00 Crore bank facilities of System Controls Technology Solutions Private Limited. The outlook is '**Stable**'.

The rating downgrade is on account of steep decline in revenues in the current financial year and decline in profitability for the last few years. In FY2020, the revenue stood at Rs.18.97 Crore with a net loss of Rs.1.14 Crore. The company has booked net loss of Rs.2.43 crore for the period under study from April to January 2021. Also, its revenues were volatile and declined from Rs.18.97 crore in FY2020 to Rs.8.28 crore from April to January 2021. Since the company has orders in hand which are expected to be completed by March 2021, 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.

About the Company

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 SCTSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

Mr. Francis Xavier has experience of over three decades in Motion Control Technologies, Automation and providing System Solutions to Defense, Aeronautical, Aerospace, Telecom, Railways and Energy Sectors. The company has well established relationships with Defense Research & Development Organizations, Indian Space Research Centre, Public Sector Undertakings such as HAL, BEL, BEML and reputed private organizations including L&T and TATA Power.

Acuité believes that the company will benefit from experienced management which will help the company to maintain long standing relations with its customer and suppliers.

Weaknesses

- **Below average financial risk profile**

Company's financial risk profile remained below average marked by low net worth, high gearing and poor debt protection metrics. The net worth of the company stood at Rs.3.61 Crore as on 31 March 2020 as against Rs.4.77 Crore as on 31 March 2019. The gearing level (debt-equity) stood at 2.23 times as on 31 March 2020 as against 1.88 times as on 31 March 2019. The total debt of Rs.8.03 Crore as on 31 March 2020 consists of secured loan of Rs.3.97 Crore, unsecured loan of Rs.2.31 Crore and working capital borrowings of Rs.1.75 Crore. The interest coverage ratio (ICR) stood low at 0.01 times in FY2020 as against 0.52 times in FY2019.

- **Working capital intensive operations**

The working capital management of the company is intensive in FY2020 marked by Gross Current Assets (GCA) days of 281 days in FY2020 as against 337 days in FY2019. The inventory and debtor levels stood at 147 days and 107 days in FY2020 as against 237 and 92 days in FY2019, respectively. The creditor days stood at 123 days in FY2020 as against 139 days in FY2019. As a result, the average utilization of bank limits stood high at ~82 per cent in the last six months ending January, 2021.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of high inventory and debtor days.

Rating sensitivity

- Significant decline in current year performance due to Covid-19 followed by nationwide lockdown.
- Intensive working capital nature of operation

Material Covenant

None

Liquidity position: Stretched

SCPL has deteriorating liquidity profile marked by negative cash accruals and almost full bank limit utilization. The company has reported negative net cash accruals of Rs.0.98 crore in FY2020. Stretched working capital management lead to almost full utilization of its bank lines. However, the average utilization stood at 82 percent for the last 6 months ending January, 2021.

Outlook: Stable

Acuité believes that SCTSPL will continue to benefit over the medium term due to its experienced management and reputed clientele. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues while maintaining its working capital. Conversely, the outlook may be revised to 'Negative', in case the company continuously registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected elongation in working capital leading to deterioration in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	18.97	15.29
PAT	Rs. Cr.	(1.14)	(0.81)
PAT Margin	(%)	(6.04)	(5.31)
Total Debt/Tangible Net Worth	Times	2.23	1.88
PBDIT/Interest	Times	0.01	0.52

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
11-March-2019	Cash Credit	Long Term	5.00	ACUITE BB/Negative (Downgraded)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Reaffirmed)
22-February-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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/Stable (Downgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Downgraded)

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About Acuite Ratings & Research:

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