

Press Release

System Controls Technology Solutions Private Limited

June 02, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.00	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	6.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	12.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

The rating factors in the strength derived from the experienced management and reputed clientele. The rating is, however, is constrained due to modest scale of operations, working capital intensive nature of operations and intense competition.

About the Company

SCTSPL, a Bangalore based private limited company was incorporated in 2011 is 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

Acuite 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**

SCTSPL's financial risk profile remained below-average marked by modest net worth, high gearing and below-average debt protection metrics. The tangible net worth stood at Rs. 3.84 Cr as on 31 March, 2022(Prov.) as against Rs. 1.74 Cr as on 31 March, 2021. The gearing of the company has been improving over the last 2 years ending 31 March 2022(Prov.). It stood at 2.54 times as on 31 March, 2022(Prov.) against 5.86 times as on March 31, 2021. The total debt as on 31 March, 2022 consist of working capital limits from banks of Rs. 9.74 Cr. Further, the interest coverage ratio stood at 3.62 times as on 31 March, 2022(Prov.) as against (0.96) times as on 31 March, 2021. The debt to EBITDA of the company stood at 2.41 times as on 31 March, 2022 (Prov.) as against (8.62) times as on 31 March, 2021. However, the TOL/TNW stood to 4.12 times as on 31 March 2022(Prov.) as against 8.63 times as on 31 March, 2021. Acuité believes that the financial risk profile is expected to remain at similar level in the medium term and the ability of the firm to improve its capital structure by improvement in the net worth will be critical in order to maintain a stable credit profile.

- **Working capital intensive operations**

The working capital management of the company is intensive marked by high Gross Current Asset (GCA) days of 250 days as on 31 March, 2022(Prov.) as against 399 days as on 31 March, 2021. Inventory days stood at 78 days as on 31 March, 2022(Prov.) as against 188 days as on 31 March, 2021. Subsequently, the payable period stood at 84 days as on 31 March, 2022(Prov.) as against 142 days as on 31st March, 2021 respectively. The debtors' day stood at 130 days as on 31 March, 2022(Prov.) as against 100 days as on 31 March, 2021. Further, the average bank limit utilization in the last twelve months ended March, 22 remained at ~76 percent for fund based and 86 percent for non-fund based. 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 Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financials risk profile

Material covenants

None

Liquidity Position: Adequate

SCTSPL's liquidity is adequate marked by its moderate net cash accruals to its maturing debt obligations. The company has reported cash accruals of Rs. 2.22 Cr. in FY2022 (Prov.) and expected to generate cash accruals in the range of Rs.2.44-2.74 Cr. against CPLTD of Rs.0.25-0.33 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.02 Cr as on March 31, 2022(Prov). The current ratio of the company stood at 1.40 times as on March 31, 2022(Prov). Acuité believes that SCTSPL liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	25.79	12.98
PAT	Rs. Cr.	2.11	(1.88)
PAT Margin	(%)	8.16	(14.46)
Total Debt/Tangible Net Worth	Times	2.54	5.86
PBDIT/Interest	Times	3.62	(0.96)

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Mar 2021	Cash Credit	Long Term	5.00	ACUITE BB- Stable (Downgraded from ACUITE BB Negative)
	Working Capital Demand Loan	Long Term	1.00	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	6.00	ACUITE A4 (Downgraded from ACUITE A4+)
11 Mar 2019	Cash Credit	Long Term	5.00	ACUITE BB Negative (Downgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Reaffirmed)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB- Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	1.00	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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