



Press Release
System Controls Technology Solutions Private Limited
November 14, 2024
Rating Upgraded

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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuite has upgraded its long-term rating to **‘ACUITE BB’ (read as ACUITE double B)** from **‘ACUITE BB-’ (read as ACUITE double B minus)** and the short-term rating to **‘ACUITE A4+’ (read as ACUITE A four plus)** from **‘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’**.

Rationale for upgrade:

The rating upgrade takes into account of overall improvement in the business risk profile of the company marked by substantial increase in the turnover, absolute profitability levels and improvement in the financial risk profile of the company. The rating also factors experienced management and reputed clientele.

The rating is, however, is constrained due to working capital intensive nature of operations and highly fragmented and competitive industry.

About the Company

SCTSPL, 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 the defense, aerospace, aerospace, telecom, railways, and nuclear energy sectors.

Unsupported Rating

Not applicable

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 the defence, aerospace, aerospace, telecom, railways, and energy sectors. The company has well-established relationships with defense research and development organizations, the Indian Space Research Centre, public sector undertakings such as HAL, BEL, and 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 customers and suppliers.

- **Improved scale of operations**

The company's operating income has shown YOY growth of 24.81 percent in FY2024 as compared to FY2023, which stood at Rs. 33.33 Cr. in FY2024 as against Rs. 26.70 Cr. in FY2023. The improvement in FY2024 is on account of increased defence production orders from BEL (Bharat Electronics Ltd.) and LRDE (Electronics & Radar Development Establishment). Out of total revenue, around 73 percent caters to manufacturing and 27 percent caters to trading business. The profitability margins of SCTSPL improved and stood at 23.10 percent in FY2024 as against 13.60 percent in FY2023. The improvement in the margins is on account of a decrease in raw material cost and a substantial increase in revenue (on account of defence production-based orders). Acuité believes that, going forward, the business risk profile will continue to improve gradually, backed by the steady demand for the defence segment.

- **Above average financial risk profile albeit moderate net worth**

The SCTSPL financial risk profile is above average, marked by healthy debt protection metrics, low gearing, and moderate net worth. The tangible net worth stood at Rs. 9.74 Cr. as on March 31, 2024, as against Rs. 5.43 Cr. as on March 31, 2023. The improvement is on account of accretion of net profit in the reserves. The gearing of the company stood at 0.97 times as on March 31, 2024, against 1.07 times as on previous year. The total debt as on March 31, 2024, consists of working capital limits from banks of Rs. 9.43 Cr, term loans of Rs. 0.40 Cr, and USL of Rs. 3.40 Cr. Further, the interest coverage ratio stood at 6.13 times as on March 31, 2024, as against 3.86 times as on March 31, 2023. DSCR stood at 3.49 times as on March 31, 2024, as against 2.33 times as on March 31, 2023. The debt to EBITDA of the company stood at 1.20 times as on March 31, 2024, as against 1.54 times as on March 31, 2023. However, the TOL/TNW stood to 1.50 times as on March 31, 2024, as against 2.27 times as on March 31, 2023. Acuité believes that, going forward, the financial risk profile will remain above average over the medium term in the absence of any major debt-funded capex plans.

Weaknesses

- **Working capital intensive operations**

The operations of the company are working capital intensive, marked by Gross Current Asset (GCA) days of 238 days in FY2024 as against 201 days in FY2023. GCA days in FY2024 have deteriorated on account of an increase in debtor and inventory days. Inventory days stood at 89 days in FY2024 as against 67 days in FY2023. Debtor days stood at 152 days in FY2024 as against 120 days in FY2023. The deterioration in debtor days is due to the fact that for R&D products, the systems need to be tested by its customers after delivery, only after which they release the payments. This results in high debtor days as on March 31, 2024. Subsequently, the payable period stood at 46 days in FY2024 as against 73 days in FY2023, respectively. Further, the average bank limit utilization in the last six months ended October 2024 remained at ~35 percent for fund-based.

- **Presence in highly fragmented and competitive industry**

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

Rating Sensitivities

- 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

Liquidity Position: Adequate

The liquidity profile of SCTSPL is adequate, marked by its adequate net cash accruals to its maturing debt obligations. The company has reported cash accruals of Rs. 4.42 Cr. in FY2024 as against the current portion of long-term debt (CPTLD) of Rs. 0.35 Cr. and is expected to generate cash accruals in the range of Rs. 4.38-4.85 Cr. against CPLTD of Rs. 0.08-0.32 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.57 Cr. as on March 31, 2024. The current ratio of the company stood at 2.11 times as on March 31, 2024. Further, the average bank limit utilization in the last six months ended October 2024 remained at ~35 percent for fund-based. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accruals against repayment obligations.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	33.33	26.70
PAT	Rs. Cr.	4.30	1.96
PAT Margin	(%)	12.91	7.33
Total Debt/Tangible Net Worth	Times	0.97	1.07
PBDIT/Interest	Times	6.13	3.86

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

Not applicable

Any other information

None

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Aug 2023	Bank Guarantee/Letter of Guarantee	Short Term	6.00	ACUITE A4 (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	1.00	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BB- Stable (Reaffirmed)
02 Jun 2022	Bank Guarantee/Letter of Guarantee	Short Term	6.00	ACUITE A4 (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	1.00	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BB- Stable (Reaffirmed)
11 Mar 2021	Bank Guarantee (BLR)	Short Term	6.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Cash Credit	Long Term	5.00	ACUITE BB- Stable (Downgraded from ACUITE BB Negative)
	Working Capital Demand Loan (WC DL)	Long Term	1.00	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Canara Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	6.00	Simple	ACUITE A4+ Upgraded (from ACUITE A4)
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BB Stable Upgraded (from ACUITE BB-)
Canara Bank	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	1.00	Simple	ACUITE BB Stable Upgraded (from ACUITE BB-)

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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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