Press Release

Sakthi Accumulators Private Limited (SAPL)

02 November, 2017

Rating Upgraded and Reaffirmed

Total Bank Facilities Rated	28.00 Cr. (Enhanced from Rs. 20.00 Cr.)
Long Term Rating	SMERA B+/Stable (Upgrade from SMERA B/Stable)
Short Term Rating	SMERA A4 (Reaffirmed)

SMERA has upgraded the long term rating to **'SMERA B+' (read as SMERA B plus) from 'SMERA B' (read as SMERA B)** and reaffirmed the short term rating of **'SMERA A4' (read as SMERA A Four)** on the Rs. 28.00 crore bank facilities of Sakthi Accumulators Private Limited (SAPL). The outlook is **'Stable'**.

Further, SMERA has assigned long term rating of SMERA B+/Stable on the Rs. 8.00 crore bank facilities of SAPL.

The upgrade is in view of the healthy growth in revenue along with profitability margins of the company. SMERA believes that going ahead, the company will sustain growth in revenues along with profitability margins over the medium term.

Sakthi Accumulators Private Limited (SAPL) incorporated in 1992 as a partnership firm by Mr. R. K. Kandasamy was converted to private limited in 2014. The company manufactures lead batteries (tubular batteries, automotive batteries, traction batteries) which find application in UPS, inverters, solar panels among others. The manufacturing facility located at Bangalore has installed capacity of 10000 batteries per month.

Key rating drivers

Strengths

Long track record of operations and experienced management

SAPL was started by Mr. R. Kandasamy in 1992. The management has experience of more than two decades in the said line of business. The day-to-day operations are led by Mr. Shiv Kumar who is well supported by experienced personnel. The company caters to reputed companies including V-Guard, Bajaj Electricals and Selco India.

Healthy growth in revenues

SAPL has registered healthy growth in revenues during the period under study. The company's revenue grew at a CAGR of 78.76 per cent during the period FY2014 to FY2017. The revenue stood at Rs. 41.64 crore in FY2017 as against Rs. 20.36 crore in FY2016 and Rs. 7.29 crore in FY2015. The revenues have grown on account of capex in FY2015 of Rs. 14.57 crore. This has helped the company enhance its capacity from 2000 to 10000 batteries per month enabling growth in revenues.

Improvement in working capital cycle

The working capital cycle of SAPL improved during the period under study evident from the working capital cycle days of 59 in FY2017 as against 104 in FY2016. The working capital cycle improved majorly on account of decrease in inventory holding period to 107 days in FY2017 as from 157 days in FY2016 and debtor days to 16 days in FY2017 as against 27 days in FY2016. The GCA days improved to 124 days in FY2017 as against 190 days in FY2016. The creditor days stood at 64 days in FY2017 as against 81 days in FY2016. The bank limit utilisation stood at 90 per cent for the last six months ended September 2017.

Weaknesses

Average financial risk profile

The financial risk profile of SAPL has remained average marked by net worth of Rs. 5.90 crore as on 31 March, 2017 as against Rs. 3.52 crore as on 31 March, 2016. The gearing stood high at 3.50 times as on 31 March, 2017 as against 6.23 times as on 31 March, 2016. The total debt outstanding as on 31 March, 2017 of Rs. 20.64 crore comprises term loan of Rs. 8.54 crore, unsecured loan from Directors of Rs. 5.00 crore and working capital borrowing of Rs. 7.10 crore. The Interest Coverage Ratio (ICR) stood comfortable at 1.59 times in FY2017 as against 1.05 times in FY2016. The DSCR stood at 1.53 times in FY2017 as against 1.27 times in FY2016.

The net cash accruals have improved and stood at Rs. 3.03 crore in FY2017 as against Rs. 0.67 crore in FY2016. The NCA/TD stood at 0.08 times in FY2017 and 0.03 times in FY2016.

Uneven profitability margins

The profitability margins of SAPL have been uneven during the period under study. The EBITDA margins stood at 11.97 per cent in FY2017 as against 12.87 per cent in FY2016. The margins fell on account of increase in raw material prices in FY2017.

The PAT margins have also been uneven at 5.02 per cent in FY2017 compared to 0.12 per cent in FY2015. SAPL was into losses in FY2016 due to heavy depreciation cost incurred in FY2016.

Profitability is susceptible to volatility in lead prices

The margins of the company are susceptible to volatility in lead prices. Significant changes in raw material prices due to import pressure would have an impact on the margins of the company. Slowdown in demand and threat of cheaper imports is leading to piling up of inventory with companies operating at low margins.

Analytical Approach:

SMERA has considered the standalone business and financial risk profile of SAPL to arrive at the rating.

Outlook – Stable

SMERA believes that the company will continue to maintain a stable outlook and continue to benefit over the medium term from its promoters' extensive experience in the industry. The outlook may be revised to 'Positive' in case the company registers healthy revenues and sustains profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue, profit margins and working capital cycle.

About the Rated Entity – Key Financials

In FY2016-17 the company reported profit after tax (PAT) of Rs.2.09 crore on operating income of Rs.41.64 crore as against net loss of Rs.1.42 crore on operating income of Rs.20.36 crore in the previous year. The tangible net worth stood at Rs. 5.90 crore as on 31 March, 2017 as against Rs. 3.52 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Applicable Criteria

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

Note on complexity levels of the instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
03-Nov, 2016	Cash Credit	Long Term	6.00	SMERA B / Stable (Assigned)
	Term Loan	Long Term	10.00	SMERA B / Stable (Assigned)
	Letter of Credit	Short Term	3.00	SMERA A4 (Assigned)
	Bill Discounting	Short Term	1.00	SMERA 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	N.A	N.A	N.A	6.00	SMERA B+/Stable (Upgraded from SMERA B/Stable)
Term Loan	N.A	N.A	N.A	10.00	SMERA B+/Stable (Upgraded from SMERA B/Stable)
Letter of Credit	N.A	N.A	N.A	3.00	SMERA A4 (Reaffirmed)
Bill Discounting	N.A	N.A	N.A	1.00	SMERA A4 (Reaffirmed)
Proposed Cash Credit	N.A	N.A	N.A	7.00	SMERA B+/Stable (Assigned)
Proposed long term facilities	N.A	N.A	N.A	1.00	SMERA B+/Stable (Assigned)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in Namita Palve, Rating Analyst, Tel: +91-22-6714 1129 Email: namita.palve@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

__Disclaimer:__ A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.