Schenck Process India Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit I	10.00	SMERA BBB-/Stable (Assigned)
Cash Credit II	10.00	SMERA BBB-/Stable (Assigned)
Letter of Credit	1.00	SMERA A3 (Assigned)
Bank Guarantee I	30.00	SMERA A3 (Assigned)
Bank Guarantee II	20.00	SMERA A3 (Assigned)
Fund/Non-Fund Based (proposed)	11.00	SMERA BBB-/Stable/SMERA A3 (Assigned)

SMERA has assigned ratings of **'SMERA BBB-' (read as SMERA triple B minus)** and **'SMERA A3' (read as SMERA A three)** on the abovementioned bank facilities of Schenck Process India Limited (SPIL). The outlook is **'Stable'**.

For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Schenck Process India Limited (SPIL) and Stock Redler India Private Limited (SRIPL) (hereafter referred to as Schenck Process Group India (SPGI) on account of business alignments, common ownership and shared brand name.

The Bangalore-based SPGI is engaged in the designing and assembling of material handling systems. The ratings draw comfort from the established track record of operations, experienced management and strong parentage support. The ratings also factor in the comfortable financial risk profile and healthy order book position.

However, the ratings are constrained by the susceptibility of the operating performance to timely receipts and execution of orders from key user sectors such as cement, coal, power among others. The ratings also note the intense market competition and volatility in input prices.

The top management of SPGI comprises parent group nominees and experienced professionals i.e. Ms. Guna Thantry and Mr. Sunil S Potdar, possess over two decades of experience in the said line of business. SPGI is part of the Schenck Process Group, Germany (Parent group comprises Schenck Process Holding GmBH, its subsidiaries and associates). The parent group is a major international player in providing weighing, feeding, screening and niche material handling solutions to core sector industry with operations in 20 countries.

The ratings factor in the strong parentage support in terms of technology and supply of raw material. SPGI also has access to the diversified product portfolio and client base of parent group companies as technologies are shared within the group and products are offered under one trademark globally. Asian markets are strategically crucial for the parent group, hence the two India-based subsidiaries (SRIPL and SPIL) are expected to remain critical for the parent group.

SPGI has comfortable financial risk profile marked by tangible net worth of Rs.99.05 crore and gearing (debt-to-equity ratio) of 0.14 times as on March 31, 2016. Total debt includes working capital borrowings. The interest coverage ratio stood at 1.79 times in FY2015-16. SPGI has been able to manage working capital cycle due to elongated credit received from suppliers (mainly group companies). The average working capital limit utilisation has been ~45 per cent in last six months ended September 2016. SPGI has healthy unexecuted order book of Rs.105.00 crore. Further, the timely receipts and execution of orders from key user sectors like cement, coal, power and steel is the key rating sensitivity.

SPGI operates on a moderate scale with operating income of Rs.224.51 crore in FY2015-16 (PY: Rs. 210.90). The lumpy revenues are mainly due to the project-based nature of business. The group has low profitability with operating margin at 3.73 per cent in FY2015-16 (PY: operating loss of Rs. 5.72 crore). The operating margins of SPGL are susceptible to volatility in input prices. SPGI is also exposed to foreign exchange fluctuation risk for un-hedge imports; however the risk is mitigated to an extent due to natural hedge.

Rating Sensitivity Factors

- Order book position
- Sustained improvement in revenues and profitability
- Movement in gearing and coverage indicators
- Ownership and control of Schenck Process Group, Germany
- Regulatory framework

Outlook: Stable

SMERA believes that the Schenck group will continue to maintain a Stable outlook over the medium term owing to the extensive experience of the management. The outlook may be revised to 'Positive', if the company achieves sustained improvement in profit margins while maintaining healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profit margins or deterioration in the capital structure or coverage indicators.

Criteria applied to arrive at the ratings:

- Consolidation
- Manufacturing Entities

About the Group

SPGI is in the business of manufacturing and selling of material handling equipments. SPIL (formerly Schenck Jenson & Nicholson Ltd.), incorporated in 1996, is a 100 per cent subsidiary of Schenck Process Holding GmbH, Germany. The company is engaged in design, manufacturing and selling of various types of plant sequencing, continuous weighing, feeding, proportioning, on line data handling and batching systems for industrial applications. The company also undertake projects in the field of train load out systems and setting up of coal preparation plants. SPIL, through its diverse product portfolio, caters to various industries viz. cement, steel, coal among others.

Incorporated in 2003, SRIPL is a 100 per cent subsidiary of Stock Redler Limited, UK. SRIPL provides special material handling solutions including gravimetric coal feed systems, mill reject systems and pneumatic ash handling systems for coal-fired power plants. Additionally, it provides specialised mechanical and pneumatic conveying solutions for the steel, cement and chemical industries.

On consolidated basis, the Schenck group has reported net profit after tax (PAT) of Rs. 1.71 crore on operating income of Rs. 224.51 crore as compared to net loss of Rs. 8.53 crore on operating income of Rs. 210.90 crore.

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ABOUT SMERA

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