Press Release

Schenck Process India Limited

May 16, 2017

Rating Downgraded

Total Bank Facilities Rated*	Rs.82.00 Cr
Long Term Rating	SMERA BB+/Stable (Downgraded)
Short Term Rating	SMERA A4+ (Downgraded)

**Refer Annexure for details*

Rating Rationale

SMERA has downgraded the long-term rating to **'SMERA BB+' (read as SMERA double B plus)** and short term rating to **'SMERA A4+' (read as SMERA A four plus)** from SMERA BBB-' (read as SMERA triple B minus) and 'SMERA A3' (read as SMERA A three) on the Rs.82.00 crore bank facilities of Schenck Process India Limited (SPIL). The outlook is **'Stable'**.

The rating downgrade is in view of the lower than expected revenue and profitability which has exerted pressure on business and financial risk profile of SPIL.

Incorporated in 1996, SPIL is a 100 per cent subsidiary of Schenck Process Holding GmbH, Germany. The company manufactures and sells plant sequencing, continuous weighing, feeding, proportioning, on line data handling and batching systems for industrial applications. It caters to several industries including cement, steel, coal among others.

Analytical Approach: For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Schenck Process India Limited (SPIL) and Schenck Process Solutions India Private limited (SPSIPL) (hereafter referred to as Schenck Process Group India - SPGI) on account of business alignments, common ownership and the shared brand name.

List of key rating drivers and their detailed description

Strengths:

Long operational track record and experienced management: The senior management of SPGI comprises parent group nominees and experienced professionals i.e. Ms. Guna Thantry and Mr. Sunil S Potdar, who possess over two decades of experience in the said line of business.

Ongoing support from the parent company: 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 technology expertise is shared within the group and products are offered under a single trademark globally. The Asian markets are strategically crucial for the parent group and hence, its two Indian subsidiaries (SRIPL and SPIL) are expected to remain critical.

Comfortable financial risk profile and working capital cycle: SPGI has comfortable financial risk profile marked by tangible net worth of Rs.99.05 cr and gearing (debt-to-equity ratio) of 0.14 times as on March 31, 2016. The 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 ~50 per cent in the last six months ended February 2017.

Weaknesses:

Uneven revenues and low profitability: SPGI operates on a moderate scale with operating income of Rs.224.51 cr in FY2015-16 (PY: Rs. 210.90). The uneven revenues are mainly due to the project-based nature of business. For FY2017 (provisional), SPGI booked revenue of ~Rs. 180.00 cr, a decline of ~24 per cent over FY2016. SPGI has moderate unexecuted order book of Rs.105.00 cr. Further, the timely receipts and execution of orders from key user sectors such as cement, coal, power and steel is the key rating sensitivity.

The group has low profitability with operating margin at 3.73 per cent in FY2015-16 (PY: operating loss of Rs. 5.72 crore). Further, for FY2017 (provisional), SPSIPL reported EBITDA of Rs. 9.46 cr whereas SPIPL has reported EBITDA loss of Rs.7.26 cr. SMERA expects profitability to remain under pressure in the medium term due to subdued demand in the end user industry and competitive pressure.

Profitability is susceptible to volatility in input prices: 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.

Analytical approach: Same as above

Applicable Criteria

- Consolidation - https://www.smera.in/criteria-consolidation.htm
- Manufacturing Entities - https://www.smera.in/criteria-trading.htm
- Default Recognition - https://www.smera.in/criteria-default.htm
- Application Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Outlook: Stable

SMERA believes that SPGI 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.

About the Group

SPGI is engaged in the manufacturing 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 the designing, 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 undertakes 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.

About the Rated Entity – Key Financials

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

Status of non-cooperation with previous CRA (if applicable): India Ratings has withdrawn the rating of the company vide release dated December 27, 2016 due to lack of adequate information.

Any other information: None

Rating History for the last three years:

Name of Instrument /Facilities	FY2018			FY2017		FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating with Outlook	Date	Rating with Outlook	Date	Rating with Outlook	Date	Rating with Outlook
Cash Credit I	LT	10.00	SMERA BB+/Stable (Downgraded)	Nov 28, 2016	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Cash Credit II	LT	10.00	SMERA BB+/Stable (Downgraded)	Nov 28, 2016	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	1.00	SMERA A4+ (Downgraded)	Nov 28, 2016	SMERA A3 (Assigned)	-	-	-	-	-	-
Bank Guarantee I	ST	30.00	SMERA A4+ (Downgraded)	Nov 28, 2016	SMERA A3 (Assigned)	-	-	-	-	-	-
Bank Guarantee II	ST	20.00	SMERA A4+ (Downgraded)	Nov 28, 2016	SMERA A3 (Assigned)	-	-	-	-	-	-
Proposed fund based	LT	11.00	SMERA BB+/Stable (Downgraded)	Nov 28, 2016	SMERA BBB-/Stable/A3 (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 I	N.A	N.A	N.A.	10.00	SMERA BB+/Stable (Downgraded)
Cash Credit II	N.A	N.A	N.A.	10.00	SMERA BB+/Stable (Downgraded)
Letter of Credit	N.A	N.A	N.A.	1.00	SMERA A4+ (Downgraded)
Bank Guarantee I	N.A	N.A	N.A.	30.00	SMERA A4+ (Downgraded)
Bank Guarantee II	N.A	N.A	N.A.	20.00	SMERA A4+ (Downgraded)
Proposed fund based	N.A	N.A	N.A.	11.00	SMERA BB+/Stable (Downgraded)

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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