

## Press Release

S V A Rikkon Lubes Private Limited

August 30, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable
Short Term Rating	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.12.00 crore bank facilities of S V A Rikkon Lubes Private Limited (SVA or the Company). The outlook is '**Stable**'.

Established in 1996 as a proprietorship concern by Mr. Venkatesan; firm was reconstituted as a private limited company in 2004 and renamed as S.V.A. Rikkon Lubes Private Limited (SVA). It is a closely-held private limited company formed by the family members of Mr. Venkatesan, Mrs. V.Sujatha, Mr.V. Aravindhan and Mr. V.Jagan as directors. SVA manufactures and sells industrial and automotive lubricants in its brand name 'LUBERR' through direct marketing across India. It has manufacturing unit at Athipet, Ambattur, Chennai.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SVA to arrive at this rating.

### Key Rating Drivers

#### Strengths:

- Experienced management lends competitive edge**

The Company was established in 1996 promoted by Mr. Venkatesan in Chennai. A family-owned company, the business operations are currently handled by his sons and daughters who have more than two decades of experience in Automatic Lubrication Systems manufacturing business. Promoters experience in the industry has helped the company to establish relationships with several suppliers and customers as is demonstrated by repeat orders from the same. It resulted in improvement in revenues; at a compound annual growth rate (CAGR) of about 30 percent over four years through FY2018. Acuité believes that the Company's business risk profile is expected to improve further supported by the expanding capacity, vintage of the promoter and the financial flexibility the company enjoys.

- Comfortable financial profile**

SVA's financial risk profile is marked by healthy gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics though constrained by modest network. The gearing is healthy at 0.72 times as on March 31, 2018 (Provisional). TOL/TNW is healthy at around 1.11 times (Provisional) owing to less reliance on external debt and modest net worth of Rs.7.38 crore (Provisional) as on March 31st, 2018. The debt protection metrics of Interest service coverage is healthy at 8.24 times, and net cash accruals to total debt (NCA/TD) stood at 0.68 times March 31, 2018 (Provisional). The firm is implementing a moderate debt-funded capital expenditure (capex) of Rs.7.75 crore funded out of term loan of Rs.5.00 crore for expansion and adding new products. The facility is expected to be operational by April 2019. Acuité believes that despite the proposed capex, the financial risk profile is expected to be comfortable over the medium term supported by healthy cash accruals.

### Weaknesses:

- Modest scale of operations with revenue decline in FY2018**

The Company's operations are modest and have witnessed revenue decrease in the FY2018. Its operating income stood at Rs. 22.10 crore in FY2018 against Rs. 24.12 crore in FY2017, marking a decline of ~9%. However, its existing scale of operations is akin to an average sized company Industrial Equipment Industry. However, with improving end user demand, the revenues are expected to roll-back and to improve to about Rs.25.00 –40.00 crore over the medium term.

- Working capital intensive operations:**

The operations of the Company are moderately working capital intensive in nature; as reflected by high gross current asset days of over 139 days as on March 31, 2018. The high GCA is mainly attributed to high debtor days of about 81 days and, it maintains a minimal stock of about 60-90 days for smooth operations. The utilization of its working capital limits are around 35% for past six months ended with July 2018. However, Acuite believes that working capital requirements are expected to increase with the increasing scale of operations of around 15-20% percent over the medium term and operations will continue be working capital intensive.

### Outlook: Stable

Acuite believes that SVA's will maintain a 'Stable' outlook in the medium term on account of the experienced promoter and the financial flexibility it enjoys. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle on account of planned geographical diversification, thus exerting pressure on the liquidity.

### About the Rated Entity - Key Financials

	Unit	FY18 (provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.10	24.12	16.23
EBITDA	Rs. Cr.	4.84	4.43	2.53
PAT	Rs. Cr.	2.57	2.43	0.88
EBITDA Margin	(%)	21.90	18.38	15.61
PAT Margin	(%)	11.62	10.09	5.41
ROCE	(%)	16.34	15.15	9.90
TOL/Tangible Net Worth	Times	1.11	1.63	2.22
PBDIT/Interest	Times	1.05	1.14	1.48
Gross Current Assets (Days)	Days	139	107	151

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Not Applicable

### \*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	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB / Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BB / Stable (Assigned)
IBN (Inland bill Negotiation)	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Assigned)

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### About Acuité Ratings & Research:

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