

Press Release

Syscon Instruments Private Limited

February 01, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 12.50 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 minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 12.50 crore bank facilities of Syscon Instruments Private Limited (SIPL). The outlook is '**Stable**'.

The Bangalore based, SIPL was incorporated in 1978. The company is engaged in assembly line automation, turnkey projects and design & manufacturing of SPM (Special Purpose Machine) used in automobile industry.

Analytical Approach

Acuité has consolidated (full consolidation) the business and financial risk profiles of Syscon Instruments Private Limited (SIPL), Syscon Calibration Centre Private Limited (SCCPL), Syscon Metering Solutions Private Limited (SMSPL) and Instrol Devices (ID) together referred to as the 'Syscon Group' (SG). The consolidation is in view of the similar line of business, operational and financial synergies and common management.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Syscon Group was founded in 1978, thus, have an operational track record of over four decades. The promoters of the group have over four decades of experience in the same line of business. Hence, long track records of operations and vast experience of management has helped the group develop healthy relationships with its customers and suppliers. Acuité believes that SG will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Reputed clientele**

SG has established relations with reputed customers such as Renault Nissan Automotive Private Limited, Exide Industries Limited, TVS Motor Company and Honda Motorcycle & Scooter India Private Limited, among others. The group has long standing relations of over a decade with its customers.

- **Modest scale of operations**

SG's revenues have grown at a CAGR of 16 percent from FY2016 to FY2018. The operating income of the group stood at Rs.46.03 crore in FY2018 as against Rs.34.84 crore in FY2017 and Rs.33.64 crore in FY2016. Further, the group has registered revenue of ~Rs.30.00 crore from April 2018-December 2018. Acuité believes that the scale of operations will increase over the medium term.

Weaknesses

- **Deterioration in financial risk profile due to decline in profitability**

The financial risk profile of the group stood average marked by net worth of Rs.10.64 crore (includes Rs.3.28 crore of quasi equity) as on 31 March, 2018 as against Rs.12.32 crore (includes Rs.2.33 crore of quasi equity) as on 31 March, 2017. The gearing (debt-equity) stood at 1.06 times as on 31 March, 2018 as against 0.95 times as on 31 March, 2017. The total debt of Rs.11.32 crore as on 31 March, 2018 mainly comprises Rs.6.93 crore of short term debt, Rs.3.69 crore of long term debt and Rs.0.70 crore of unsecured loans. Interest Coverage Ratio (ICR) declined to 0.11 times for FY2018 as against 3.87

times for FY2017. Total outside liabilities /Tangible Net Worth (TOL/TNW) stood at 3.04 times as on 31 March, 2018 as against 2.58 times as on 31 March, 2017. Debt to EBITDA stood high at 58.74 times in FY2018 as against 1.79 times in FY2017. The deterioration in financial risk profile is mainly due to operating loss of Rs.0.23 crore in FY2018 as against operating profit of Rs.6.23 crore in FY2017. The loss incurred in FY2018 is mainly due to cost overrun and delay in one of the projects. Further, the group reported net loss of Rs.2.33 crore in FY2018 as against PAT of Rs.2.77 crore in FY2017. However, the company has reported operating profit of Rs.3.30 crore for 9MFY2019 and profit before tax of Rs.5.65 crore for 9MFY2019. Acuite believes that the group's financial risk profile is expected to improve in near to medium term backed by moderate net cash accruals in near to medium term.

• Working capital intensive operations

The group has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 225 days for FY2018 as against 316 days for FY2017. The inventory days stood at 72 days for FY2018 as against 180 days for FY2017. The debtors stood at 67 days for FY2018 as against 57 days for FY2017. Acuite believes that the group's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Liquidity Position

Syscon group has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated negative net cash accruals of Rs.1.61 crore in FY2018 due to exceptional loss in that year while its maturing debt obligations were Rs.0.49 crore for the same period. The repayment of FY2018 has been supported by infusion of unsecured loans from Directors and profit on sale of asset. However, the cash accruals of the group are estimated to be around Rs.5.00 crore during 2019-21 backed by its profit before tax of Rs.5.65 crore for 9MFY2019 while its repayment obligation are estimated to be around Rs.0.64 crore for the same period.

The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 225 in FY2018. This has led to lower reliance on working capital borrowings, the cash credit limit of the group remains utilised at 44.03 percent during the last 6 months period ended December 2018. The group has maintained unencumbered cash and bank balances of Rs. 2.26 crore as on 31 March, 2018. The current ratio of the group stood healthy at 1.15 times as on 31 March, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual as on date and no major repayments over the near to medium term.

Outlook: Stable

Acuite believes that SG will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the group registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Group

Syscon group (SG) was founded in 1978 by Mr. M. Mallikarjuna Swamy having an experience of over four decades in the same line of business. The group is engaged in manufacturing of SPM (Special Purpose Machines), providing services for repair and maintenance of SPMs, manufacturing electrical meters and IOT (Internet of Things) and manufacturing SPM machine parts. The group consists of four companies, namely, Syscon Instruments Private Limited (SIPL), Syscon Calibration Centre Private Limited (SCCPL), Syscon Metering Solutions Private Limited (SMSPL) and Instrol Devices (ID).

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	46.03	34.84	33.64
EBITDA	Rs. Cr.	-0.23	6.23	3.23
PAT	Rs. Cr.	-2.33	2.77	1.23
EBITDA Margin	(%)	-0.51	17.87	9.59
PAT Margin	(%)	-5.06	7.95	3.66
ROCE	(%)	-2.25	24.36	26.93
Total Debt/Tangible Net Worth	Times	1.06	0.95	1.82
PBDIT/Interest	Times	0.11	3.87	3.79
Total Debt/PBDIT	Times	58.74	1.79	3.72
Gross Current Assets (Days)	Days	196	280	138

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE BB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.61	ACUITE BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+

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