

Press Release

Finearcs Systems Private Limited (FSPL)

April 20, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr
Long Term Rating	SMERA BBB-/Stable
Short Term Rating	SMERA A3

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs.15.00 crore bank facilities of Finearc Systems Private Limited (FSPL). The outlook is '**Stable**'.

The Pune-based FSPL, incorporated in 1986 is into automation solutions and manufactures mechanised systems for welding and cutting.

List of key rating drivers and their detailed description

Strengths

Experienced management

The company is led by Mr. Shrikant Pathak, Director who possesses experience of over four decades in the welding industry and is joined by his son, Mr. Rahul Shrikant Pathak who has been with FSPL for over a decade. Mr. Milind Kelkar, son-in-law of Mr. Shrikant Pathak, is also actively involved in the business since the last 15 years. The long standing presence of the aforementioned in the industry has helped establish long term relations with reputed clients, OEMs and Tier I suppliers of OEMs such as Benteler Automotive India Private Limited, Bajaj Auto Limited, Cosma International India Private Limited among others.

SMERA believes that the experienced management and the marquee clientele base will prove to be a major support to FSPL over the near to medium term.

Above average financial risk profile

The company has comfortable gearing of 0.40 times as on March 31, 2016. The total debt of Rs.5.61 cr consists of working capital related borrowings only. The networth stood at Rs.14.08 cr as on March 31, 2016. The Interest coverage ratio stood comfortable at 3.17 times in FY2016 (5.48 times in FY2015). Further, the debt protection metrics are comfortable with NCATD (Net cash accruals to Total Debt) of 0.31 times for FY2016 (0.38 times in FY2015). SMERA believes that the prudent capital structure and healthy debt protection metrics will support the credit profile of FSPL.

Weaknesses

Working capital intensive operations

The operations of the company are working capital intensive marked by high GCA of 235 days in FY2016. This is mainly on account of high inventory of around 132 days which is maintained to cater to the customised needs of customers coupled with variety of products and debtors of 79 days in FY2016. However, the working capital is supported by credit extended by suppliers and advances received from customers of around 15 per cent (order book) which has in turn helped to maintain liquidity in the company. The average cash credit utilisation stood moderate at ~62 per cent during September, 2016 to February, 2017. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Modest scale of operations in a cyclical end user industry

About 80 per cent of revenue is derived from sale to the automobile industry. As a result, the company's revenues are susceptible to the inherent cyclical nature in the automobile industry.

Further, the company has modest scale of operations with revenue of around Rs.35.49 cr in FY2016, a decline of 35 per cent from the previous year (Rs.53.86 cr in FY2015) owing to the subdued performance of the automobile sector – the major revenue contributor. However, the company achieved ~Rs. 40.00 cr during April, 2016 to March 15, 2017 (provisional) due to healthy orders received during the year.

Currently, the company has order book of around ~Rs.19.00 cr to be executed by June, 2017. SMERA believes that, the ability of the company to procure orders to increase scalability and maintain its margin amidst intense competition from other players in the industry will continue to be key rating sensitivity factors.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that FSPL will maintain a stable outlook over the medium term on account of its experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case FSPL demonstrates significantly higher than expected growth in revenues while maintaining margins and managing its working capital efficiently. Conversely, the outlook may be revised to 'Negative' in case of elongation of working capital cycle leading to deterioration in the overall gearing and debt protection metrics.

About the Rated Entity

The Pune-based FSPL, incorporated in 1986 is into automation solutions and manufactures mechanised systems for welding and cutting.

The company is led by Directors, Mr. Shrikant Pathak, Mr. Vikram Sirur, Mrs. Shobha Hegde and Mrs. Gayatri Srinivasan. Mr. Rahul Pathak (son of Mr. Shrikant Pathak) and Mr. Milind Kelkar (son-in-law) of Mr. Shrikant Pathak are also actively involved in the day-to-day business. FSPL has two manufacturing units at Pimpri and Urawade.

For FY2015-16, FSPL reported net profit of Rs.1.19 cr on operating income of Rs.35.49 cr, as compared to net profit of Rs.2.25 cr on operating income of Rs.53.86 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	9.00	SMERA BBB- /Stable (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	6.00**	SMERA A3 (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	6.00**	SMERA A3 (Assigned)	-	-	-	-	-	-

*** Maximum non-fund based limit not to exceed Rs.6.00 crore. LG & BG limits are fully interchangeable*

***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	NA	NA	NA	9.00	SMERA BBB-/Stable (Assigned)
Letter of Credit	NA	NA	NA	6.00**	SMERA A3 (Assigned)
Bank Guarantee	NA	NA	NA	6.00**	SMERA A3 (Assigned)

** Maximum non-fund based limit not to exceed Rs.6.00 crore. LG & BG limits are fully interchangeable

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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