

Press Release

Finearc Systems Private Limited (FSPL)

May 14, 2018

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB-**' (**read as SMERA BBB 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 was incorporated in 1986 by Mr. Shrikant Pathak. The company is engaged in automation solutions and manufactures mechanised systems for welding and cutting. FSPL caters to automotive, steel fabrication, construction, and general engineering industries.

FSPL has manufacturing units in Pimpri and Urawade located in Maharashtra. Further, the manufacturing of small welding machines is carried out at Pimpri unit and Robotics (line operations) is carried out at Urawade unit.

Key Rating Drivers

Strengths

Established track record of operations and experienced management:

The company was incorporated in 1986 and has a long track record of operations of over three decades. Mr. Shrikant Pathak (Managing Director) possesses experience of over four decades in the welding industry and is joined by his son, Mr. Rahul Shrikant Pathak (Director) who has been associated with FSPL for over a decade. Mr. Milind Kelkar (Director), son-in-law of Mr. Shrikant Pathak, is also actively involved in the business since last 15 years. The long standing presence in the industry has helped establishing long term relations with reputed clients, OEMs and Tier I suppliers of OEMs. 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.

Moderate financial risk profile:

FSPL has moderate financial risk profile marked by net worth of Rs.14.90 crore as on March 31, 2017 as compared to Rs.14.08 crore in the previous year. The debt to equity ratio stood at 0.37 times as on March 31, 2017 which has improved from 0.40 times as on March 31, 2016. The total debt of Rs.5.48 crore in FY2017 consists of short term debt. The Interest Coverage Ratio stood high at 4.92 times in FY2017 which has increased from 3.45 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 3.87 times for FY2017 as compared to 2.89 times for FY2016.

Reputed clientele:

The company has reputed client base such as Benteler Automotive India Private Limited, Bajaj Auto Limited, Cosma International India Private Limited among others. Some of the clients are associated with the company since inception and others for more than two decades.

Weaknesses

Working capital intensive operations:

The operations are working capital intensive marked by Gross Current Assets of 233 days in FY2017 and 235 days in FY2016. This is mainly on account of high inventory of around 139 days in FY2017 which is maintained to cater to the varying needs of customers coupled with variety of products and debtors of 73 days in FY2017. However, the working capital is supported through credit extended by suppliers and advances received from customers of around 15 percent (order book) which has in turn helped to maintain liquidity. The average cash credit utilisation stood moderate at ~ 57.28 percent during last six months ending April, 2018. SMERA believes that efficient working capital management will be crucial to maintain the credit profile.

Susceptible to cyclical nature of end user industry:

About 80 percent of the revenues are derived from sales to automobile industry, making the company revenues susceptibility to inherent cyclical nature of the automobile industry.

Modest scale of operations:

The company has modest scale of operations with operating income of Rs.43.33 crore in FY2017 as compared to Rs.35.49 crore in the previous year owing to the subdued performance of the automobile sector - the major revenue contributor. However, the company achieved Rs.44.66 crore during April, 2017 to March, 2018 (provisional) due to healthy orders received during the year. 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.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of FSPL to arrive at the ratings.

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 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 - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	48.26	44.66	43.33
EBITDA	Rs. Cr.	3.74	3.43	3.24
PAT	Rs. Cr.	1.84	1.67	1.53
EBITDA Margin	(%)	7.75	7.68	7.47
PAT Margin	(%)	3.81	3.74	3.53
ROCE	(%)	14.73	14.79	14.90
Total Debt/Tangible Net Worth	Times	0.30	0.32	0.37
PBDIT/Interest	Times	4.98	5.04	4.92
Total Debt/PBDIT	Times	1.45	1.52	1.58
Gross Current Assets (Days)	Days	234	232	233

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
20-Apr-2017	Cash Credit	Long Term	9.00	SMERA BBB- / Stable (Assigned)
	Letter of Credit	Short Term	6.00**	SMERA A3 (Assigned)
	Bank Guarantee	Short Term	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB- / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00**	SMERA A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	6.00**	SMERA A3 (Reaffirmed)

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

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ABOUT SMERA

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