

Press Release

Finearcs Systems Private Limited

May 13, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

FSPL, a Pune-based private limited company was incorporated in 1986. The company is engaged in manufacturing, conceptualisation, design, and installation of dedicated automated arc welding systems for welding, cutting and automation solutions. The company has core expertise in robotics, automation, system integration, jigs and fixtures, plasma processing, and pick and place systems. The two manufacturing plant is located at in Pimpri and Urawade located in Maharashtra. The manufacturing of small welding machines is carried out at Pimpri unit and Robotics (line operations) is carried out at Urawade unit.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

The company is led by Mr. Shrikant Pathak (Managing Director), who possesses extensive experience of over four decades in the welding industry. He is further supported by his son, Mr. Rahul Shrikant Pathak, who has been with FSPL for over a decade and 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 to establish long term relations with reputed clients, OEMs and Tier I suppliers. The OEMs such as Benteler Automotive India Private Limited, Bajaj Auto Limited, Bharat Seats Limited and Cosma International India Private Limited, among others. The company is also well supported by second line of management. Acuité 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**

The financial risk profile of the company stood moderate marked by net worth of Rs.18.19crore as on 31 March, 2019 (Provisional) as compared to Rs.15.98 crore as on 31 March, 2018 and Rs.14.90 crore as on 31 March, 2017. The gearing (debt-equity) ratio stood low at 0.35 times as on 31 March, 2018 as compared to 0.37 times as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood comfortable at 5.15 times in FY2018 as compared to 4.92 times in FY2017. NCA/TD (Net cash accruals to Total Debt) stood at 0.42 times in FY2018 as compared to 0.37 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 4.21 times in FY2018. Acuité 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 are working capital intensive marked by Gross Current Assets (GCA) of 231 days in FY2018 and 233 days in FY2017. This is mainly on account of high inventory of around 156 days in FY2018, which is maintained to cater to the varying needs of customers coupled with variety of products and the receivable days stood at 65 days in FY2018. However, the working capital is supported through credit extended by suppliers and advances received from customers of around 10 percent (order book) which has in turn helped to maintain liquidity. The average cash credit utilisation stood moderate at ~51.58 percent during last six months ending March, 2019. Acuité believes that efficient working capital management will be crucial to maintain the credit profile.

- **Moderate scale of operations and susceptible to cyclical nature of end user industry**

The company has modest scale of operations with operating income of Rs. 44.77 crore in FY2018 as compared to Rs. 43.33 crore in the previous year, owing to the subdued performance of the automobile sector - the major revenue contributor. However, the company achieved Rs. 55.09 crore during April, 2018 to March, 2019 (provisional) due to healthy orders received during the year. The company has order book of Rs.71.47 crore executable in FY2020 providing revenue visibility over near to medium term. Further, About 80.00 percent of the revenues is derived from sales to automobile industry, making the company revenues susceptibility to inherent cyclical nature of the automobile industry. Acuité believes that the ability of the company to procure substantial orders to increase scalability and maintain its margin amidst intense competition from other players in the industry will remain key rating sensitivity.

Liquidity Position

The company has moderate liquidity profile marked by net cash accruals of Rs. 2.36 crore for FY2018 against no long term repayment obligations. The current ratio of the company stood at 1.71 times in FY2018 as compared to 1.66 times in FY2017. The average cash credit utilisation stood moderate at ~ 51.58 percent during last six months ending March, 2019. NCA/TD stood at 0.42 times in FY2018 as compared to 0.37 times in FY2017. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accruals with no major repayments over the medium term.

Outlook: Stable

Acuité believes that FSPL will maintain a 'Stable' outlook over the medium term on account of its promoters' industry experience. 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 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	44.77	43.33	35.49
EBITDA	Rs. Cr.	3.49	3.24	2.92
PAT	Rs. Cr.	1.79	1.53	1.19
EBITDA Margin	(%)	7.80	7.47	8.21
PAT Margin	(%)	4.00	3.53	3.36
ROCE	(%)	15.42	14.90	12.93
Total Debt/Tangible Net Worth	Times	0.35	0.37	0.40
PBDIT/Interest	Times	5.15	4.92	3.45
Total Debt/PBDIT	Times	1.47	1.58	1.77
Gross Current Assets (Days)	Days	231	233	235

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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-May-2018	Cash Credit	Long Term	9.00	ACUITE BBB- / Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00**	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	6.00**	ACUITE A3 (Reaffirmed)
20-Apr-2017	Cash Credit	Long Term	9.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	6.00**	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	6.00**	ACUITE 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	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB-/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	6.00**	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00**	ACUITE 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 Acuité Ratings & Research:

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