

Press Release

Saab Engineering

August 16, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 54.57 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned 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. 54.57 crore bank facilities of Saab Engineering. The outlook is '**Stable**'.

Saab Engineering (SE) is a Bengaluru-based partnership firm established in 1989 by Mr. Ajay Balagopal and Mr. Sanjiv Balagopal. The firm was established to take over the existing business of Precision Engineering, a proprietorship concern set up in 1986 by Mr. Ajay Balagopal. SE manufactures automotive components including alternator pulleys, spark plug housings, sintered gears among others at Bangalore and has total installed capacity of 960 tonnes per month. It caters to automobile companies in Bangalore, Pune and Chennai and also exports to Spain, Germany, Brazil, Romania, South Africa, Argentina to name a few.

Key Rating Drivers

Strengths

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

The firm has been manufacturing automotive components for the last three decades and catering to marquee names including Bosch Limited, Lucas Indian Service Limited and Schneider Electrical India Private Limited. The firm was promoted by Mr. Ajay Balagopal and Mr. Sanjiv Balagopal who possess extensive experience of around three decades in the manufacturing of automotive components. SMERA believes that SE will continue to benefit from its established track record of operations, diversified product range and long standing relations with reputed clientele.

- **Improvement in revenue and operating margins**

SE has reported operating income of Rs.119.46 crore (Provisional) for FY2016-17 as against Rs.106.09 crore for FY2015-16 and Rs. 88.58 crore for FY2014-15. The firm has reported CAGR of around 11 percent for the last three years. The improvement in revenue is on account of increase in orders from existing as well new customers supported by continuous addition in installed capacity. However, the operations are susceptible to intense competition and cyclicity in the automobile sector. Further, the firm reported operating margin of 20.37 percent (Provisional) for FY2017 as against 16.84 percent in the previous year. The improvement in profitability is due to the installation of modernised machinery. SMERA believes that the firm will sustain improvement in revenue and maintain profitability on account of the capex plan of Rs.25.00 crore to increase installed capacity from 800 tonnes per month to 960 tonnes per month.

- **Comfortable financial riskprofile**

The financial risk profile is comfortable with healthy networth of Rs.25.48 crore (Provisional) as on 31 March, 2017 as against Rs. 16.46 crore in the previous year. The gearing stood at 2.39 times (Provisional) as on 31 March, 2017 as against 2.26 times as on 31 March, 2016. The total debt of Rs.

60.88 crore (Provisional) mainly consists of long term debt of Rs. 38.68 crore and short term debt of Rs. 22.20 crore as on 31 March, 2017. The total liabilities to tangible networth (TOL/TNW) stood at 2.86 times (Provisional) as on 31 March, 2017 as against 3.16 times in the previous year. The coverage indicators are comfortable with interest coverage ratio (ICR) of 5.42 times (Provisional) for FY2017 as against 5.46 times in the previous year. Further, the debt service coverage ratio (DSCR) stood at 2.90 times (Provisional) for FY2017 as against 4.43 times in the previous year. Going forward, SMERA believes that the retention of earnings coupled with major debt funded capex plan will result in significant improvement in the gearing in the near to medium term.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive as reflected in the gross current asset days of 124 days (Provisional) for FY2016-17 as against 114 in the previous year. The elongation in the gross current asset days is mainly on account of stretched inventory days of 56 (Provisional) and debtor days of 69 (Provisional) for FY2017. However, the average cash credit limit utilisation has been comfortable at 89 percent for the last six months ended 28 February, 2017. The firm reported net cash accruals of Rs.15.94 crore as against Rs.11.28 crore in the previous year on account of improvement in revenue and profitability.

- **Susceptibility of profit margins to volatility in raw material prices and forex rates**

The prices of the main raw material, iron and steel are volatile in nature. Hence, the profitability is susceptible to volatility in raw material prices. Further, around 15 percent of the total sales in FY2016-17 was exported to Spain, Brazil, Germany, Romania, South Africa. Hence, the profitability is exposed to fluctuations in forex rates in the absence of adequate hedging mechanism.

- **Risk of withdrawal of capital**

The partnership constitution of the firm exposes it to capital withdrawal risk.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook of SE will remain Stable over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the firm registers significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17, SE reported profit after tax (PAT) of Rs. 7.59 crore (Provisional) on operating income of Rs. 119.46 crore as against PAT of Rs. 6.04 crore on operating income of Rs. 106.09 in the previous year. The networth stood at Rs. 25.48 crore (Provisional) as on 31st March, 2017 as against Rs. 16.46 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>

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

Note on complexity levels of the rated instrument
<https://www.smera.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	16.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	30-Jun-2019	3.21	SMERA BBB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.00**	SMERA A3
Purchase bill discounting	Not Applicable	Not Applicable	Not Applicable	4.00^	SMERA A3
Term loans	Not Applicable	Not Applicable	31-Aug-2022	9.00#	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	30-Jun-2022	5.00*	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	30-Sep-2024	5.00*	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3
Foreign Currency Term Loan	Not Applicable	Not Applicable	30-Sep-2020	4.40	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	28-Feb-2021	0.17	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2021	3.61	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	31-Dec-2021	0.87	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.31	SMERA BBB- / Stable

& includes sub-limit ODBD to the extent of Rs.8.00 crore.

**Fully Interchangeable with FBE (purchase/discount/negotiate of export bill)

^Fully interchangeable with cash credit

#Fully interchangeable with FCNR (Bank) Loan

*Fully interchangeable with FCNR (Bank) Loan, Buyer's Credit and Capex letter of credit

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ABOUT SMERA

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