

Press Release

Saab Engineering

November 05, 2018

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite 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. 54.57 crore bank facilities of Saab Engineering (SE). The outlook is '**Stable**'.

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, and sintered gears among others at Bangalore and has total installed capacity of 1070 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SE to arrive at the rating.

Key Rating Drivers

Strengths

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

SE a partnership 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 partners possess extensive experience of around three decades in the manufacturing of automotive components. Acuite believes that SE will continue to benefit from its established track record of operations, diversified product range and long standing relations with reputed clientele.

- **Moderate financial risk profile**

The financial risk profile is marked by healthy net worth of Rs.27.27 crore as on 31 March, 2018 as against Rs.20.95 crore in the previous year. The gearing (debt-equity) improved to 2.60 times as on 31 March, 2018 as against 2.87 times as on 31 March, 2017. The total debt of Rs.70.85 crore mainly consists of long term debt of Rs.37.59 crore as on 31 March, 2018 and short term debt of Rs.33.26 crore as on 31 March, 2017. The total liabilities to tangible net worth (TOL/TNW) stood at 3.30 times as on 31 March, 2018 as against 3.51 times in the previous year. The coverage indicators are comfortable with interest coverage ratio (ICR) of 4.95 times in FY2018 as against 3.51 times in the previous year. Further, the debt service coverage ratio (DSCR) stood comfortable at 2.79 times in FY2018 as against 2.71 times in the previous year.

- **Improving revenue supported by healthy order book**

The operating revenue of SE has significantly improved to Rs.167.20 crore in FY2018 as compared to Rs.119.85 crore in FY2017. The firm has booked revenue of Rs.120 crore till September 2018. The healthy order book of the firm stood at Rs.165.00 crore as on September 2018 and is expected to be executed within FY2019. The improvement in revenue is marked by increase in capacity utilisation and adding of new products in the portfolio.

Weaknesses

• Declining margins and susceptibility to volatility in raw material prices

The operating margins and PAT margins have declined to 14.83 percent and 4.44 percent in FY2018 as compared to 18.35 percent and 5.44 percent in FY2017 mainly on account of increase in raw material cost, i.e. iron and steel, interest and depreciation cost. The prices of the main raw material, iron and steel are volatile in nature impacting margins.

• Moderate working capital cycle

The operations are moderately working capital intensive as reflected in the Gross Current Assets (GCA) of 121 days in FY2017-18 as against 115 days in the previous year. The elongation in the GCA is mainly on account of stretched debtor days of 82 in FY2018 as compared to 68 days in FY2017. The average cash credit limit utilisation has been comfortable at 97.20 percent for the last six months ended September, 2018.

• Risk of withdrawal of capital

SE's partnership constitution exposes it to the capital withdrawal risk. However, the same has not been observed in the past.

Outlook: Stable

Acuite 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

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	167.20	119.85	106.09
EBITDA	Rs. Cr.	24.80	21.59	17.86
PAT	Rs. Cr.	7.42	6.12	6.04
EBITDA Margin	(%)	14.83	18.01	16.84
PAT Margin	(%)	4.44	5.10	5.69
ROCE	(%)	18.29	21.03	26.38
Total Debt/Tangible Net Worth	Times	2.60	2.87	2.26
PBDIT/Interest	Times	4.95	4.90	5.46
Total Debt/PBDIT	Times	2.84	2.76	2.07
Gross Current Assets (Days)	Days	121	115	114

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. Crore)	Ratings/Outlook
17-Sep-2018	Cash Credit	Long Term	16.00&	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	3.21	ACUITE BBB- Issuer not co-operating*
	Packing Credit	Short Term	1.00**	ACUITE A3 Issuer not co-operating*
	Bills Discounting	Short Term	4.00^	ACUITE A3 Issuer not co-operating*
	Term Loan	Long Term	9.00#	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	5.00*	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	5.00*	ACUITE BBB- Issuer not co-operating*
	Bank Guarantee	Short Term	1.00	ACUITE A3 Issuer not co-operating*
	Term Loan	Long Term	4.40	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	0.17	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	3.61	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	0.87	ACUITE BBB- Issuer not co-operating*
	Proposed Long Term Loan	Long Term	1.31	ACUITE BBB- Issuer not co-operating*
16-Aug-2017	Cash Credit	Long Term	16.00&	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	3.21	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Short Term	1.00**	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	4.00^	ACUITE A3 (Assigned)
	Term Loan	Long Term	9.00#	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	5.00*	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	5.00*	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.40	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	0.17	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	3.61	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	0.87	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	1.31	ACUITE BBB- / Stable (Assigned)

& 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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Core)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00**	ACUITE BBB- / Stable (Reaffirmed and enhanced from 16.00)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.00**	ACUITE A3 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB- / Stable (Reaffirmed)
Purchase bill discounting	Not Applicable	Not Applicable	Not Applicable	4.00^	ACUITE A3 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	9.00#	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00*	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00*	ACUITE BBB- / Stable (Reaffirmed)
Foreign Currency Term Loan	Not Applicable	Not Applicable	Not Applicable	4.40	ACUITE BBB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00**	ACUITE A3 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.17	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.61	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.87	ACUITE BBB- / Stable (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.02	ACUITE BBB- / Stable (Reaffirmed)

**Cash Credit facility is Fully Interchangeable with FBE (purchase/discount/negotiate of export bill), Packaging Credit, Bank Guarantee and maximum utilization is Rs.18.00 crores.

^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

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuute.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuute.in
Rupesh Patel Analyst - Rating Operations Tel: 02249294032 rupesh.patel@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.*