

Press Release

Saab Engineering

D-U-N-S® Number: 92-123-3891

January 31, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 75.00 Cr. (Enhanced from Rs. 54.57 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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.75.00 crore (enhanced from Rs. 54.57 crore) bank facilities of Saab Engineering (Saab). The outlook is '**Stable**'.

Saab 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. The firm manufactures automotive components including alternator pulleys, spark plug housings and sintered gears, among others at Bengaluru and has total installed capacity of 1070 tonnes per month. It caters to automobile companies in Bengaluru, Pune and Chennai and also exports to Spain, Germany, Brazil, Romania, South Africa and Argentina to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Saab to arrive at the rating.

Key Rating Drivers

Strengths

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

Saab, 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. Acuité 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 outside 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 Saab has significantly improved to Rs.167.20 crore for FY2018 as compared to Rs.119.85 crore in FY2017. The firm has booked revenue of Rs.159.25 crore till December 2018. The healthy order book of the firm stood at Rs.170.75 crore as on December 2018 and is expected to be executed within FY2019 and first quarter of FY2020. 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 for FY2017-18 as against 115 days in the previous year. The elongation in the GCA days 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 high at 96.18 percent for the last six months ended December, 2018.

- **Risk of withdrawal of capital**

Saab being a partnership constitution is exposed to the capital withdrawal risk. However, the same has not been observed in the past.

Liquidity Position

SE has moderate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.16.01 crore during the FY2017-18 and of Rs.13.71 crore during the FY2016-17. The cash accruals of the firm are estimated to remain adequate during FY2019 to 2021 to support additional repayment obligations for the planned debt funded expenditure of Rs.16.00 crore for setting up a new unit. The firm's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 121 in FY2018. Saab's reliance on working capital borrowings is moderate; the cash credit limit in the firm remains utilised at 96.18 percent during the last six months period ended December 2018. The firm maintains unencumbered cash and bank balances of Rs.0.84 crore as on March 31, 2018. The current ratio stood low at 1.00 time as on March 31, 2018. The firm is likely to incur capex of Rs.22.00 crore in FY2019 and FY2020 which is likely to be partially funded by net cash accruals and external borrowing of Rs.16.00 crore. Acuité believes that the liquidity of the firm is likely to remain adequate over the near to medium term on account of healthy order book position, cash accruals and no major repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook of Saab 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 (Actual)	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
05-Nov-2018	Cash Credit	Long Term	18.00** (enhanced from Rs.16cr)	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	1.00**	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BBB- / Stable (Reaffirmed)
	Bills Discounting	Short Term	4.00^	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	9.00#	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	5.00*	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	5.00*	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	4.40	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00**	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.17	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	3.61	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	0.87	ACUITE BBB- / Stable (Reaffirmed)

	Proposed Long Term Loan	Long Term	3.02	ACUITE BBB- / Stable (Reaffirmed)
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*
	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)

**Cash Credit facility is Fully Interchangeable with FBE (purchase/discount/negotiate of export bill).

Packaging Credit, Bank Guarantee and maximum utilisation is Rs.18.00 crore

^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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00** (enhanced from Rs.16cr)	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE BBB-/Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.00**	ACUITE A3 (Reaffirmed)
Purchase bill discounting	Not Applicable	Not Applicable	Not Applicable	11.50^ (enhanced from Rs.4cr)	ACUITE A3 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.64#	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.99*	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.19*	ACUITE BBB-/Stable (Reaffirmed)
Foreign Currency Term Loan	Not Applicable	Not Applicable	Not Applicable	3.20	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.09	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.96	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.52	ACUITE BBB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.34	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00**	ACUITE A3 (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	17.81	ACUITE BBB-/Stable (Reaffirmed)

Note: Maximum Utilisation will be Rs. 75.00 crore

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

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About Acuité Ratings & Research:

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