

Press Release

Saab Engineering

November 24, 2020



Rating Upgraded and Assigned; Withdrawn

Total Bank Facilities Rated*	Rs.75.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from **ACUITE BB+ (ACUITE Double B plus)** and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from **ACUITE A4+ (read as ACUITE A four plus)** on Rs. 67.86 crore bank facilities and has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs.7.14 crore bank facilities of Saab Engineering (SE). The outlook is '**Stable**'. Acuité has withdrawn the short term rating of **ACUITE A4+ (read as ACUITE four plus)** on the Rs.1.00 crore bank facilities of SE.

The rating was earlier downgraded as per the press release dated 13th April, 2020 on account of information risk. The company has now cooperated with Acuité for the review.

The rating upgrade takes cognizance from the consistent improvement in its operational metrics expected over the medium term, supported by its established market position, extensive experience of its promoters in the auto ancillary industry and long relationship with its customers and suppliers. The aforementioned strengths are partially offset by its working capital-intensive nature of operations, customer concentration risk, consistent decline in its operating margins and the tepid market conditions in the automobile industry and intense competition.

Saab Engineering (SE) is a Bangalore based partnership firm established in 1989. SE is promoted by Mr. Ajay Balagopal and Mr. Sanjiv Balagopal. SE has four manufacturing units with facilities for forging and machining of automotive components. The firm manufactures various automotive components and supplies components to several reputed players Lucas TVS Ltd, SEG Automotive - Group, Bosch-Group, Schaeffler Group, Subros Ltd among others.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of SE to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters and strong customer base**

Established in 1989, the promoters have over 3 decades of experience in the engineering and auto ancillary industry and are actively involved in its day-to-day operations. It has helped to a build healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business from its customers. SE is a prominent supplier of automotive component parts to leading automobile players including Lucas TVS Ltd, SEG Automotive - Group, Bosch-Group, Schaeffler Group, Subros Ltd which contributes to over 70-80 percent of its revenues, leading to customer concentration. Established relationship with reputed customers has resulted in compound annual growth rate (CAGR) of about 16 percent over the past three years through FY2020 (provisional) at Rs.194.49 Cr. Acuité believes that the industry experience and domain knowledge of the management and reputed clientele are expected to improve its business risk profile over the medium term.

- **Moderate financial risk profile**

SE's financial risk profile is moderate marked by modest net worth, high gearing (debt-to-equity), high total outside liabilities to total net worth (TOLTNW) and comfortable debt protection metrics. SE's net worth is

moderate at Rs.36.71 Cr as on March 31, 2020 (provisional) as compared to Rs.36.30 Cr as on March 31, 2019. Gearing stood high at 1.85 times as on March 31, 2020 (provisional) as against 1.97 times as on March 31, 2019. TOL/TNW stood high at 3.07 times as on March 31, 2020 (provisional) as against 2.93 times as on March 31, 2019. Its debt protection metrics are comfortable marked by its NCA/TD and interest coverage ratio of 0.15 times and 2.73 times in FY2020 (provisional) vis-à-vis 0.27 times and 4.96 times in FY2019, respectively. SE has reported cash accruals of Rs.10.07 Cr to 19.58 Cr during last 3 years ended through FY2020 (provisional) as against repayment obligations of about Rs.7.00 Cr to 9.00 Cr during the same period. Its cash accruals are expected in the range of Rs.10-15Cr over the medium term against repayment obligations of about Rs.6-8 Cr during the same period. Acuité believes that with moderate accruals and no significant debt-funded capex plans, the financial risk profile is expected to moderate over the medium term.

Weaknesses

• Moderate working capital intensity

SE's operations remained working capital intensive with Gross Current Assets (GCA) of 121-165 days over the past three fiscals ended through March 31, 2020 (provisional), due to moderate inventory management and receivables.. The inventory days ranged between 46-76 days and debtor's days ranged between 68-84 days during the last three years ended with March 31, 2020 (provisional.) To support the working capital, the company stretches the creditors to an extent of about 67-150 days which led to a weak current ratio of below 1.00 times in the past. Its bank limits are utilised high about 98 percent during past 6 months through September 2020. Acuité believes that the operations of the SE will remain working capital intensive over the medium term.

• Modest scale of operations and declining profitability

The auto component industry is highly competitive due to competition from organised and unorganised players. The growth of auto component manufacturer will continue to be driven by volume growth of its key OEMs. Auto ancillaries with exposure to OEMs are witnessing increased competition having limited scope for volume growth; further, it exerts pressure on the profitability also. SE has been in operations about a decade; its scale of operations remained modest with operating income ranging between Rs.167-210 Cr in during last 3 years ended through FY2020 (Provisional). The operating margins have been declining year-over-year from 14.83 per cent in FY2018 to 9.04 per cent in FY2020 (provisional). Declined margins are owing to fluctuations in raw material prices, limited bargaining power and limited flexibility to pass on the prices to the customers. Additionally, vulnerability of revenues and profitability to cyclical trends in the automobile industry; demand disruption because of the pandemic, are expected to affect revenues and margins in FY2021.

Liquidity Profile: Adequate

SE's liquidity position remains adequate as reflected in its adequate net cash accruals to its maturing debt obligations; albeit constrained by high utilisation of working capital limits. SE has reported cash accruals of Rs.10.07 Cr to 19.58 Cr during last 3 years ended through FY2020 (provisional) as against repayment obligations of about Rs.7.00 Cr to 9.00 Cr during the same period. Its cash accruals are expected in the range of Rs.10-15Cr over the medium term against repayment obligations of about Rs.6-8 Cr during the same period. Liquidity is constrained by its highly utilized working capital limits at about 98 per cent for the last nine months through September 2020. The current ratio stood weak below 1.00 times over the last three years ended with March 31, 2020 (provisional). Acuité believes that though cash accruals are adequate, howbeit, managing the working capital intensive operations will remain a key rating sensitivity factor.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.
- Further stretch in the working capital cycle

Material covenants

None

Outlook: Stable

Acuité believes that SE will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to 'Positive' in case of a

significant improvement in its revenues while improving the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if there is any steep decline in the company's revenue or profitability or further deterioration in the working capital cycle, or further weakening of its current ratio, or any significant debt-funded capital expenditure leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	194.49	210.43
PAT	Rs. Cr.	2.19	10.98
PAT Margin	(%)	1.13	5.22
Total Debt/Tangible Net Worth	Times	1.85	1.97
PBDIT/Interest	Times	2.73	4.96

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-APR-2020	Cash Credit	Long Term	18.00	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Term Loan	Long Term	0.76	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Packing Credit	Short Term	1.00**	ACUITE A4+ Issuer not co-operating* (Downgraded from ACUITE A3)
	Purchase Bill Discounting^	Short Term	11.50	ACUITE A4+ Issuer not co-operating* (Downgraded from ACUITE A3)
	Term Loans	Long Term	7.64	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Term Loans	Long Term	3.99	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Term loans	Long Term	4.19	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Foreign Currency Term Loan	Long Term	3.20	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Term Loans	Long Term	0.09	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)

	Term Loans	Long Term	1.96	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Term Loans	Long Term	0.52	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Term Loans	Long Term	5.34	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Proposed Long Term Loan	Long Term	17.81	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Bank Guarantee	Short Term	1.00**	ACUITE A4+ Issuer not co-operating* (Downgraded from ACUITE A3)
31-Jan-2019	Cash Credit	Long Term	18.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	0.76	ACUITE BBB-/ Stable (Reaffirmed)
	Packing Credit	Short Term	1.00**	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	11.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	7.64	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	3.99	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	4.19	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	3.20	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	0.09	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	1.96	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	0.52	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	5.34	ACUITE BBB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00**	ACUITE A3 (Reaffirmed)
	Proposed Long Term Loan	Long Term	17.81	ACUITE BBB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	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)

05-Nov-2018	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)
	Term Loan	Long Term	3.02	ACUITE BBB-/ Stable (Reaffirmed)

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

***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	22.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE BBB-/ Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	11.50	ACUITE A3 (Upgraded from ACUITE A4+)
Term loans	OCT-2016	Not Applicable	OCT-2023	6.01	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	OCT-2016	Not Applicable	OCT-2023	3.14	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	OCT-2016	Not Applicable	OCT-2023	3.28	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	July-2019	Not Applicable	June-2024	2.98	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	JAN-2016	Not Applicable	FEB-2021	0.04	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	MAR-2016	Not Applicable	FEB-2021	1.70	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	JAN-2016	Not Applicable	FEB-2021	0.20	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term loans	NOV-2017	Not Applicable	OCT-2022	5.33	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Indicative)
Term loans	JAN-2019	Not	DEC-2023	0.60	ACUITE BBB-/

		Applicable			Stable (Assigned)
Term loans	JUNE-2020	Not Applicable	MAY-2025	4.34	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.68	ACUITE BBB- / Stable (Upgraded from ACUITE BB+)

Note: ACUITE has Withdrawn the ACUITE A4+ issued for Bank Guarantee of Rs.1.00**Cr; It is a fully Interchangeable with FBE (purchase/discount/negotiate of export bill), Packaging Credit, Bank Guarantee. Now the current Bank has permitted cancel the existing BG/PC/FBD/FBE in the sanction letter.

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