

Press Release

SAI APPLIED TECHNOLOGIES PRIVATE LIMITED

October 18, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+** (read as SMERA BB plus) and short term rating of '**SMERA A4+** (read as SMERA A four plus) on the Rs. 7.00 crore bank facilities of SAI APPLIED TECHNOLOGIES PRIVATE LIMITED. The outlook is '**Stable**'.

Sai Applied Technologies Private Limited (SATPL), a Gujarat based company was incorporated in 2014 to take over the existing business of Sai Technologies (ST) a proprietorship concern established in 1996 by Mr. Prakash Jambur. SATPL is led by Mr. Prakash Jambur and Mrs. Sucharitha Jambur. The company is engaged in the manufacture, erection and commissioning of control panels for waste water, food processing, atomic energy, thermal energy and various other industries/plants.

Key Rating Drivers

Strengths

- **Experienced Management**

The Director Mr. Prakash Jambur has over two decades of experience in the said business.

- **Moderate financial riskprofile**

The financial risk profile of SATPL is moderate marked by low net worth of Rs. 6.07 crore as on 31 March, 2017 (Provisional) compared to Rs. 4.86 crore as on 31 March, 2016. The gearing (debt to equity ratio) stood healthy at 0.34 times as on 31 March, 2017 (Provisional) as against 0.52 times as on 31 March, 2016. The debt of Rs. 2.04 crore mainly comprises working capital borrowings as on 31 March, 2017 (Provisional). The Net cash accruals/total debt (NCA to TD) stood at 0.70 times as on 31 March, 2017 (Provisional) as against 0.47 times in the previous year. The Interest Coverage ratio (ICR) is healthy and is expected to remain in the range of 6 to 8 times in FY2018. SMERA expects the financial risk profile to remain comfortable with steady profitability in the absence of debt funded capex plans in the near to medium term.

- **Healthy profitability margins**

The operating margins (EBITDA) of SATPL stood at 12.49 percent in FY2017 (Provisional) compared to 11.15 percent in FY2016 and 11.33 percent in FY2015. The improvement in operating margin in FY2017 is mainly on account of decrease in other operating expenses. The PAT margins stood healthy at 7.96 percent in FY2017 (Provisional) as against 6.25 percent in FY2016 and 5.05 percent in FY2015. The increase in PAT margins over the years is mainly due to decrease in interest cost as the company has funded its capital requirements mainly through internal accruals.

Weaknesses

• Small scale of operations marked by stagnant revenues

Despite being in operations since 1996, SATPL has small scale of operations marked by operating income of Rs. 15.20 crore in FY2017 (Provisional) and Rs. 15.10 crore in FY2016. For the period April 2017 to September 2017, the company booked revenue of Rs. 13.00 crore. The revenue remained stagnant during the period under study due to low demand from customers and delays in executing of existing projects.

• Working capital intensive operations

The operations are working capital intensive marked by gross current assets (GCA) days of 216 in FY2017 (Provisional) compared to 246 in FY2016. The high GCA days are on account of high debtors of 204 days in FY2017 (Provisional) as against 231 days in FY2016 as the company caters largely to government entities. Even though debtors are stretched, the same has been compensated by creditors which stood at 143 days in FY2017 (Provisional) compared to 192 days in FY2016. As a result the working capital cycle stood at 74 days in FY2017 (Provisional) compared to 54 days in FY2016. The average cash credit utilisation for the past three months was ~60 percent. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Customer concentration risk

SATPL is exposed to customer concentration risk as ~58.00 percent of the total operating income is generated from three major customers - Megha Engineering & Infrastructure Limited, NCC Limited and Jyoti Limited in FY2017 as against ~63.00 per cent in FY2016.

• Competitive and fragmented industry

SATPL operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company.

Outlook: Stable

SMERA believes that SATPL will maintain a stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations while maintaining profitability and comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' if SATPL's revenue and profitability decline or if the financial risk profile weakens owing to stretch in working capital cycle or large debt-funded capital expenditure undertaken by the company.

About the Rated Entity - Key Financials

SATPL reported profit after tax (PAT) of Rs. 1.24 crore on net sales of Rs. 15.20 crore in FY2017 (Provisional) as against PAT of Rs. 0.94 crore on net sales of Rs. 15.10 crore in FY2016. The net worth stood at Rs.6.07 crore as on 31 March, 2017 (Provisional) compared to Rs. 4.86 crore as on 31 March, 2016.

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	2.00	SMERA BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+

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ABOUT SMERA

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