

Press Release

Surface Treatment Systems

August 01, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE BB**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.8.00 crore bank facilities of Surface Treatment Systems (STS). The outlook is '**Stable**'.

STS was established in 1990 by Mr. Sadashivaiah. The proprietary concern is engaged in manufacture of chassis parts, engine parts, braking systems, clutch components for automotive sector. It has a service unit which is engaged in powder coating and liquid painting of various OEM's. STS is located in Hosur (Tamil Nadu) which is at close proximity of various customers.

Key Rating Drivers

Strengths

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

STS was established as a proprietary concern in 1990, thereby establishing track record for almost three decades. The firm has established healthy relationship with reputed customers such as Ashok Leyland Ltd, LUK India Ltd, Excel Engineering Co, VST Tillers & Tractors Ltd to name a few. Acuité believes that STS will benefit over the medium term on account of established track record of operations and experienced management.

- **Improvement in operating income with stable profitability**

STS has registered improvement in operating income during the period FY2015 to FY2018 under the study. The operating income stood at Rs.35.08 crore in FY2018 (Provisional) as against Rs.27.11 crore in FY2017 and Rs.20.41 crore in FY2016. The operating profitability stood stable at 6.31 percent in FY2018 (Provisional) as against 6.36 percent in FY2017. The net profitability margins improved marginally to 2.54 percent in FY2018 (Provisional) as against 2.41 percent in FY2017. Acuité believes that STS will maintain its revenue streams and the profitability over the medium term on account of expansion in the manufacturing capacity.

Weaknesses

- **Working capital intensive operations**

The Gross Current Assets (GCA) deteriorated from 72 days in FY2017 to 109 days in FY2018 (Provisional). The GCA days are mainly dominated by debtor days of 70 in FY2018 (Provisional) compared to 46 days in FY2017. The average cash credit utilisation for the past six months stood at ~80 percent. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Customer concentration risk**

Out of the total operating income, around 75 percent is being generated from Ashok Leyland Ltd, thereby establishing customer concentration risk. Any adverse changes in the business profile or lower than expected orders from Ashok Leyland Ltd may impact the revenue streams of STS.

- **Susceptibility of profitability to volatility in raw materialprices**

The profitability of STS is susceptible to volatility in raw material prices of steel, the prices of which are highly volatile in nature.

Analytical Approach

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

Outlook: Stable

Acuité believes that the outlook on STS will remain 'Stable' over the medium term. The outlook may be revised to 'Positive' in case the firm registers significant increment in its revenue and profitability while improving its liquidity position. The outlook may be revised to 'Negative' in case of deterioration in its financial risk profile and stretched working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	35.08	27.11	20.41
EBITDA	Rs. Cr.	2.21	1.72	1.50
PAT	Rs. Cr.	0.89	0.65	0.40
EBITDA Margin	(%)	6.31	6.36	7.36
PAT Margin	(%)	2.54	2.41	1.94
ROCE	(%)	19.20	18.43	32.61
Total Debt/Tangible Net Worth	Times	1.70	1.00	0.98
PBDIT/Interest	Times	3.60	3.80	3.07
Total Debt/PBDIT	Times	2.59	1.87	1.76
Gross Current Assets (Days)	Days	109	72	89

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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)

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
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.23	ACUITE BB / Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BB / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.22	ACUITE BB / Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BB / Stable (Assigned)

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About Acuité Ratings & Research:

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