

Press Release

Solas Fire Safety Equipment Private Limited

August 13, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 14.00 crore
Long Term Rating	ACUITE B+/ Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**Read as ACUITE A four**) to the bank facilities of Solas Fire Safety Equipment Private Limited (Solas). The outlook is '**Stable**'.

Established in 1998 as a proprietorship firm and later reconstituted as a private limited company in 2002, Solas Fire Safety Equipment Private Limited (Solas) executes turnkey projects for fire protection and security systems. Based in Bangalore (Karnataka), Solas is promoted and managed by Mr. Nagraj R Shenoy.

Analytical Approach

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

Key Rating Drivers

Strengths:

- **Extensive experience of promoters**

Solas provides turnkey solutions for fire protection and security systems to MNCs/corporates. It buys the products required for installation, undertakes and commissions the projects. Further, it also undertakes annual maintenance contracts (AMC) for the same. It derives around 75-80 percent of revenue from products and remaining from AMC services. Solas provides turnkey solutions for area covering up to 1 million Sq. ft. It started with smaller area of 1 lakh Sq ft and gradually shifted to executing orders with area covering upto 10 lakh Sq ft. Solas gets business from main contractor of the project for better co-ordination, rather than from the Developer. It has an order book of about Rs.27.00 crore; further, it has participated in various tenders valued about Rs.38.0 crore. This gives adequate revenue visibility for FY2019. In FY2018, it has reported revenues of Rs.34.5 crore (Provisional) and expects to report growth in revenues of about 10 percent per annum. Acuité believes that the promoter's presence for more than two decades, healthy relations with customers and suppliers helps in getting repeat orders and improving its business risk profile over the medium term.

- **Moderate financial risk profile**

Solas's financial risk profile is marked by healthy capital structure and moderate debt protection metrics. The gearing was healthy at 1.07 times as on March, 2018 on provisional basis. Healthy gearing is marked by moderate net worth of Rs.8.39 crore as on March, 2018 (Provisional) vis-à-vis Rs.5.33 crore as on March, 2017 and debt of Rs.8.99 crore as on March, 2018 (Provisional) vis-à-vis Rs.5.62 crore as on March, 2017. The moderate net cash accruals and debt has led to net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.36 times and 4.78 times in FY2018

(Provisional) vis-à-vis 0.06 times and 1.83 times in FY2017. The improvement in FY2018 was due to higher EBITDA margins on account of high service revenues at about 50 percent vis-à-vis 20 percent historically. With EBITDA margins assumed to be lower over the medium term as compared to 16.49 percent in FY2018, the debt protection metrics are expected to be at historical levels but remain moderate.

Weaknesses:

- **Volatile revenue and operating margins**

Revenues have been volatile over the past 4 years ending March 2018; they have declined by about 20 percent in FY2018 (Provisional) from FY2015 levels, though improved from FY2017 levels. Significant dip in revenues in FY2017 was attributed to a single large order of Rs.25.00 crore for AMC service and others spilled over to FY2018. Revenue and EBITDA margin depends on the mix of orders in hand for products and AMC services. The management indicates that it would not go for turnkey orders wherein margins are below 4-5 percent. However, margins for AMC services would be higher compared to turnkey execution. EBITDA margins in FY2018 were comparatively higher due to higher proportion of revenue from AMC services i.e. 49 percent vis-à-vis 21 percent in FY2017. Acuité believes that the revenue would continue to show positive traction over the medium term backed by its orders in hand worth Rs.27.00 crore.

- **Working capital intensive operations**

Solas's operations entail high working capital cycle with Gross Current Assets (GCA) of 313 days as on March, 2018 on provisional basis. The high GCA days are marked by high debtors of 125 days and inventory of 170 days as on March, 2018 (Provisional). Debtors are high as payments are received in phased manner and on work assessment and certification by the project management team. Inventory days mostly include work-in-progress. This is partially assuaged by its creditor days of 149 as on March, 2018 (Provisional). The working capital intensity has led to full utilisation of its bank lines of Rs.4.45 crore over the last six months ending June, 2018. Acuité believes that Solas's working capital cycle would remain high over the medium term.

Outlook:

Acuité believes that Solas will maintain a 'Stable' outlook and continue to benefit over the medium term owing to promoter's experience and its established track record. The outlook may be revised to 'Positive' if Solas improves the scale of operations and working capital management leading to improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any further deterioration in the working capital management leading to pressure on the liquidity and deterioration of its financial risk profile.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	34.56	29.56	40.14
EBITDA	Rs. Cr.	5.70	1.87	2.37
PAT	Rs. Cr.	3.05	0.13	0.40
EBITDA Margin	(%)	16.49	6.32	5.91
PAT Margin	(%)	8.82	0.43	1.00
ROCE	(%)	39.29	17.24	17.68
Total Debt/Tangible Net Worth	Times	1.07	1.05	1.16
PBDIT/Interest	Times	4.78	1.83	2.37
Total Debt/PBDIT	Times	1.56	2.67	2.57
Gross Current Assets (Days)	Days	313	272	214

Status of non-cooperation with previous CRA:

None

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: - <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.45	ACUITE B+/Stable (Assigned)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.05	ACUITE B+/Stable (Assigned)

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About Acuité Ratings & Research:

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