

Press Release

Solas Fire Safety Equipment Private Limited

July 15, 2020



Rating Downgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE C (Downgraded from ACUITE B+)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE C**' (**read as ACUITE C**) from '**ACUITE B+**' (**read as ACUITE B+**) and reaffirmed the short-term rating to '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 14.00 Cr bank facilities of Solas Fire Safety Equipment Private Limited.

Reasons for Downgrade:

The rating downgrade reflects challenges faced by SFPL in maintaining a healthy liquidity profile due to higher working capital-intensive operations which again is reflected in a persistently high level of bank limit utilization and intermittent overdrawning in the facility. Further, the company has also availed a temporary ad-hoc facility. Moreover, there have also been instances of invocation of the non-fund-based facility in the past.

About the Company

Bangalore-based, SFPL was established as a proprietorship firm in 1998 and later reconstituted as a private limited company in 2002. The company executes turnkey projects for fire protection and security systems. The company is promoted by Mr. Nagraj R Shenoy and Mrs. Kavitha Shenoy, who have more than two decades of experience in the said line of business.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive experience of promoters**

SFPL, promoted by Mr. Nagraj R Shenoy and Mrs. Kavitha Shenoy who have more than two decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. This, in turn, has also helped SFPL having reported an annual turnover of ~Rs. 29 Cr in FY2019.

- **Moderate financial risk profile**

Financial risk profile of the company is moderately marked by modest net worth, moderate gearing (debt to equity ratio), and total outside liabilities to total net worth (TOL/TNW), partly constrained by moderate debt protection metrics. Tangible net worth of the company stood modest at Rs.7.56 Cr as on 31 March, 2019 as against Rs.6.06 Cr as on 31 March, 2018. The gearing stood moderate at 1.19 times as on 31 March, 2019 as against 1.48 times as on 31 March, 2018. TOL/TNW is at 2.68 times as on 31 March, 2019 as against 3.87 times as on 31 March, 2018. The total debt of Rs.9.02 Cr as on 31 March, 2019, comprises of unsecured loans from financial institutions and banks of Rs.4.07 Cr and working capital borrowings of Rs.4.95 Cr. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are at 2.44 times and 0.18 times respectively in FY2019.

Weaknesses

- **Deterioration in Working capital management**

SFPL's working capital has deteriorated in FY2019 as against FY2018. The company operates in highly

working capital-intensive nature of operation marked by Gross Current Asset (GCA) of 309 days for 2019 as against 274 days for 2018. The high GCA days is majorly dominated by high inventory and debtor's days. The inventory days were recorded at 220 days in FY2019 against 148 days in FY2018. The high inventory days reflect work-in-progress at the site. The debtor's days were recorded at 102 days for FY2019 as against 121 days in FY2018. The credit period given to customers ranges from 45 days to 60 days. However, the receivable days are high majorly due to lack of timely realization from debtors. This has led to higher reliance on external borrowings leading to full utilisation of working capital limits with instances of overdrawning in the past.

Rating Sensitivities

- Any further stretch in the working capital operations leading to further deterioration in the liquidity profile

Material Covenants

None

Liquidity: Stretched

SFPL has stretched liquidity marked by working capital intensive operations as reflected by GCA days of 309 days in FY2019. This has led to higher reliance on external debt leading to full utilisation of working capital limits along with instances of overdrawning in the past. However, the company currently avails moratorium, as per the RBI Guidelines, there were also instances of delays in repayment of term loans in the past. Further, there were also instances of invocation of non-fund-based facility in the past. The Company has also availed a temporary ad-hoc facility. However, the cash and bank balances stood at Rs.0.12 Cr as on 31st March, 2019 with a current ratio of 1.52 times for the same period.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	29.28	34.18
PAT	Rs. Cr.	1.49	1.07
PAT Margin (%)	(%)	5.08	3.13
Total Debt/Tangible Net Worth	Times	1.19	1.48
PBDIT/Interest	Times	2.44	2.55

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

CRISIL, vide its press release dated Dec 24, 2019 had denoted the rating of SOLAS FIRE SAFETY EQUIPMENT PRIVATE LIMITED as 'CRISIL B+/ Stable/ CRISIL A4; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.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
14-Oct-2019	Cash Credit	Long Term	4.45	ACUITE B+ (Indicative)
	Bank Guarantee	Short Term	5.50	ACUITE A4 (Indicative)

	Proposed Bank Facility	Long Term	4.05	ACUITE B+ (Indicative)
13-Aug-2018	Cash Credit	Long Term	4.45	ACUITE B+/ Stable (Assigned)
	Bank Guarantee	Short Term	5.50	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	4.05	ACUITE B+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	4.45	ACUITE C (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.05	ACUITE C (Downgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	

About Acuité Ratings & Research:

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