

Press Release

Cerium Systems Private Limited

September 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE BB plus**) to the Rs. 11.00 crore bank facilities of Cerium Systems Private Limited (CSPL). The outlook is '**Stable**'.

The Bangalore based, Cerium Systems Private Limited was incorporated in 2013 by Mr. Bandaru Venkaiah Naidu, Mr. Jaya Kumar Gorla, Mr. Sudhakar Palisetti and Mr. Johnson Henry Geddam. The commercial operations commenced from December, 2013. The company is engaged in designing and verification of semi-conductor chip and software development. It caters to clients in cities like Bangalore, Hyderabad and Kochi among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

CSPL is engaged in designing and verification of semi-conductor chip and software development since December, 2013. The Directors of the company collectively possess 30 years of experience in IT sector. Mr. Sudhakar Palisetti has prior experience of working in MNCs. Acuité believes that CSPL will sustain its existing business profile on the back of its experienced management.

• Strong customer base with healthy order book position

CSPL serves reputed and well established organisations in the IT sector such as AMD, Cisco, Intel and Qualcomm among others. Currently, the company has orders in hand of Rs.106.00 crore as on August 2018 to be executed in FY2019.

• Moderate financial risk profile

The financial risk profile is moderate marked by its net worth which stood at Rs.10.70 crore as on 31 March, 2018 (Provisional) as against Rs.7.00 crore as on 31 March, 2017. Gearing stood at 1.15 times as on 31 March, 2018 (Provisional) as against 0.81 times in the previous year. Interest Coverage Ratio stood at 2.83 times in FY2018 (Provisional) as against 4.13 times in FY2017. DSCR stood at 2.39 times in FY2018 (Provisional) as against 4.53 times in the previous year. TOL/TNW stood at 1.92 times as on 31 March, 2018 (Provisional) as against 2.14 times in the previous year. NCA/TD stood at 0.15 times in FY2018 (Provisional) as against 0.20 times in FY2017.

• Healthy growth in revenue

CSPL has reported healthy growth in revenues year-on-year. It reported growth of ~182.22 percent CAGR for the period FY2014-FY2018 with operating income of Rs.69.29 crore in FY2018 (Provisional) as against Rs.36.39 crore in FY2017 and Rs.17.73 crore in FY2016. The growth was on account of increase in sales to the existing customers, acquiring new customers and high market demand. The company designs semi-conductor chips and develop software.

Weaknesses

- **Limited track record of operations and modest scale of operations**

The company started its operation in December, 2013. Thus, operations of the company have a short track record considering the fact that there are companies that are operating in this segment for a long time. Further, CSPL operates at a moderate scale as it reported operating income of Rs.69.29 crore in FY2018 (Provisional) as against Rs.36.39 crore in FY2017. However, it has reported operating revenue of Rs. 25.00 crore from April 2018-June 2018.

- **Customer concentration risk**

The company is exposed to customer concentration risk arising from high dependence on orders from Intel constituting 65.65 percent of revenue generation in FY2018 (Provisional) and 38.16 percent in FY2017.

- **Working capital intensive nature of operations**

The operations of CSPL are working capital intensive marked by Gross Current Assets (GCA) of 118 days in FY2018 (Provisional) as against 177 days in FY2017. The elongation is due to stretched debtors of 73 days in FY2018 (Provisional) and 111 days in FY2017. The average cash credit utilisation is ~87.64 percent for last six months ended July 2018.

Outlook: Stable

Acuité believes that CSPL will maintain a 'Stable' outlook over the medium term and continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	69.29	36.39	17.73
EBITDA	Rs. Cr.	4.80	1.27	0.69
PAT	Rs. Cr.	1.05	0.60	0.12
EBITDA Margin	(%)	6.93	3.50	3.91
PAT Margin	(%)	1.51	1.66	0.67
ROCE	(%)	23.01	10.47	7.57
Total Debt/Tangible Net Worth	Times	1.15	0.81	0.16
PBDIT/Interest	Times	2.83	4.13	4.72
Total Debt/PBDIT	Times	3.54	4.24	1.14
Gross Current Assets (Days)	Days	118	177	251

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>
- 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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