

Press Release

System Engitech Private Limited

December 07, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.50 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 double B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 7.50 crore bank facilities of System Engitech Private Limited (SEPL). The outlook is '**Stable**'.

Incorporated in 2012, SEPL is a Surat based company engaged in manufacturing of wide range of chemicals and pharmaceutical plant equipment. It manufactures various tailor made process plant equipment as per customer's requirement and as per their own design standards. Earlier, it was a partnership firm established in 1994 which started with fabrication work. It has three manufacturing units in Gujarat with a total installed capacity of 250 to 300 vessels per year. The day to day operations are managed by its Directors, Mr. Jaimin Chandrakant Desai and Mr. Samir Jamnadas Desai.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

SEPL commenced operations from 2012. The Directors possess experience of over a decade in the manufacturing industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuité believes that SEPL will continue to benefit from its experienced management and established relationships with customers.

- **Moderate scale of operations**

The company reported decline in revenue of ~4 percent with operating income of Rs.23.18 crore in FY2018 as against operating income of Rs.24.02 crore in FY2017. Further, revenue registered in FY2016 is Rs.19.40 crore. The operating margins of the company increased marginally to 8.87 percent in FY2018 from 8.78 percent in FY2017.

Weaknesses

- **Intensive working capital operations**

SEPL has intensive working capital operations marked by Gross Current Assets (GCA) of 217 days in FY2018 as against 243 days in FY2017. The inventory and debtor levels stood at 182 days and 47 days in FY2018 as against 98 days and 125 days in FY2017, respectively. Debtor days are high due to time taken to produce a tailor made product which is on an average 120 days. As a result, the average utilisation of bank limits stood at ~ 80 percent in the last six months. Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of time taken to manufacture a tailor made product.

• **Average financial risk profile**

The financial risk profile is moderate marked by modest net worth and high gearing and moderate debt protection measures. The net worth is moderate at Rs.3.21 crore as on 31 March, 2018 as against Rs.2.50 crore as on 31 March, 2017. The gearing of the company has stood high at 2.40 times as on 31 March, 2018 as against 2.88 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 4.99 times as on 31 March, 2018 from 7.44 times as on 31 March, 2017. Interest Coverage Ratio (ICR) deteriorated to 2.21 times in FY2018 from 2.63 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on 31 March, 2018 as against 0.15 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) deteriorated to 1.85 times in FY2018 from 1.99 times in FY2017.

Outlook: Stable

Acuité believes that SEPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in SEPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	23.18	24.02	19.40
EBITDA	Rs. Cr.	2.06	2.11	1.91
PAT	Rs. Cr.	0.71	0.65	0.30
EBITDA Margin	(%)	8.87	8.78	9.86
PAT Margin	(%)	3.07	2.71	1.53
ROCE	(%)	16.93	17.11	28.40
Total Debt/Tangible Net Worth	Times	2.40	2.88	4.58
PBDIT/Interest	Times	2.21	2.63	1.81
Total Debt/PBDIT	Times	3.73	3.40	4.40
Gross Current Assets (Days)	Days	217	243	236

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>
- 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.99	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.49	ACUITE A4
Proposed	Not Applicable	Not Applicable	Not Applicable	0.02	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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