

Press Release

SIMPLE TECH AEROSPACE PRIVATE LIMITED

March 04, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 7.00 crore bank facilities of SIMPLE TECH AEROSPACE PRIVATE LIMITED (STPL). The outlook is '**Stable**'.

STPL was established in 1998 by Mr. S. Babu. In April 2019, the constitution was changed to private limited as 'Simple-Tech Aerospace Private Limited'. The company is into manufacturing of Components, Material Handling Equipment, Support Systems, Trolleys, Jigs and Fixtures, Equipment related to the Aircraft Industry, Space and R&D Firms. Currently, the company has a wide range of Vmc Machines, Turning Centers and Fully Automatic Hydraulic Band Saw; in addition to Tig Welding & Full Fledge set up of lathes and Rough Mills.

Analytical Approach

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

Key Rating Drivers

Strengths

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

STPL is promoted by Mr. S. Babu, who also manages the day to day operations of the company. He has an experience of around three decades in the same line of business. The promoter's extensive experience is also reflected through the healthy revenue growth over the last 3 years through 2017-18. The company's revenue grew at a CAGR of 11 percent to Rs.8.17 crore during the aforementioned period. STPL's order book position remains healthy at Rs.3.00 crore as on 31 January, 2019. Hence, the healthy order book provides modest revenue visibility to the company over the medium term. Acuite believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

Weaknesses

- **Average financial risk profile**

The financial risk profile is moderate marked by average net worth and debt protection measures and low gearing. The net worth of the company is average at around Rs.5.63 crore as on 31 March, 2018 as against Rs.2.91 crore as on 31 March, 2017. The improvement in net worth is on account of equity infusion of Rs.3.10 crore by the promoters to support the incremental working capital requirements. The company has followed a conservative financial policy as reflected by peak gearing of 1.87 times over the last three years through 2017-18. The gearing of the company has further improved to around 1.02 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.51 times as on 31 March, 2018 as against 2.59 times as on 31 March, 2017.

The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 1.66 times in FY2018 and 1.80 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2018 as against 0.08 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 0.95 times for FY2018 as against 0.53 times in FY2017. Acuite believes that the financial risk profile of STPL will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

• Working capital intensive nature of operations

The working capital management is marked by Gross Current Assets (GCA) of 264 days in FY2018 as against 330 days in FY2017. The company maintains inventory of around 90 days on an average and extends clean credit of around 90 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 29 days and 163 days in FY2018 as against 86 days and 194 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~90 percent in the last six months. Acuite believes that the working capital requirements will continue to remain high over the medium term on account of its high inventory requirements.

Outlook: Stable

Acuite believes that STPL 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 STPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

Liquidity position

STPL has stretched liquidity marked by inadequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.50 to Rs. 0.70 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.0.60 to Rs. 1.40 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.0.80 - Rs.1.60 crore during 2019-21. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 264 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.15 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.72 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of average cash accrual while its maturing debt obligations are estimated to be in the range of Rs.1.10 to Rs. 1.40 crore.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	8.17	5.26	6.07
EBITDA	Rs. Cr.	1.25	1.03	1.28
PAT	Rs. Cr.	0.20	0.06	0.33
EBITDA Margin	(%)	15.30	19.57	21.10
PAT Margin	(%)	2.49	1.14	5.41
ROCE	(%)	10.04	7.49	21.28
Total Debt/Tangible Net Worth	Times	1.02	1.87	1.81
PBDIT/Interest	Times	1.66	1.80	2.21
Total Debt/PBDIT	Times	4.40	5.25	4.27
Gross Current Assets (Days)	Days	264	330	342

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

Not Applicable

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	1.40	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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