Press Release

Shri Venkateswara Hi Tech Machineries Private Limited

D-U-N-S® Number: 72-567-0991

March 07, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 9.00 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)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 9.00 crore bank facilities of SHRI VENKATESWARA HI TECH MACHINERIES PRIVATE LIMITED (SVPL). The outlook is **'Stable'**.

Established in 1990, SVPL is engaged in the business of manufacturing and supply of engineering goods. The Directors of the company are Mr. T. Kalimuthu, Mr. T. Ramachandran and Mr. T. Govindaraju. The company manufactures various components related to satellite fixture, testing equipment for launch vehicles used by Indian Space Research Organization (ISRO), Indian Railways, capital goods equipment used in various industries such as cement and paper, among others. The manufacturing unit is located at Coimbatore (Tamil Nadu).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

  The Directors have vast experience in the field of manufacturing of engineering goods of more than four decades. The entity has over two decades of relationship with the major customers including ISRO constituting 50 percent of total revenues.

  Though the revenues were volatile in the past, the current unexecuted order book of Rs.25.00 crore from ISRO provides adequate revenue visibility over the near to medium term. Its revenues have improved significantly from Rs.5.5 crore in FY2016 to Rs.11.1 crore in FY2018; sharp growth in revenue is owing to large work received from ISRO. Acuité believes that building the order book for steady growth in revenues is a key rating sensitivity factor over the medium term.

- **Moderate financial risk profile**

  The financial risk profile is marked by healthy gearing and moderate debt protection metrics, though underpinned by modest net worth. The net worth stood modest at Rs.3.33 crore as on FY2018, an increase from Rs.2.43 crore in FY2017. The gearing stood healthy at 0.35 times and total outside liabilities to tangible net worth (TOL/TNW) stood at 0.97 times in FY2018 against 0.74 times and 1.89 times respectively in FY2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood strong at 9.52 times and 1.32 times respectively for FY2018. Acuité believes that the financial risk profile is expected to be at similar levels owing to modest accruals and incremental working capital requirements for increasing scale of operations.

- **Efficient working capital management**

SVPL's operations are efficiently managed with Gross Current Assets (GCA) of about 37 days in FY2018, though volatile in the past (FY2017: 172 days and FY2016: 117 days). Operations depend on the stage of the equipment / component under process and testing. Further, in case of receivables, it takes about 45-60 days to get the payment from its client post submission of the bills. This had led to moderate utilization of its bank lines at about 58 per cent for seven months through January 2019. Timely approval and billing of the supplied material are key rating sensitivity factors over the medium term.

Weaknesses

- **Modest scale and volatile revenues**

The revenues of SVPL are modest and volatile over the past three years. The revenues were stagnant at Rs.5.0 crore in FY2016 and 2017, though they have improved significantly to Rs.11.13 crore in FY2018. For eight months ended December 2018, SVPL reported revenues of about Rs.10.00 crore and the revenues for FY2019 continues to be modest at about Rs.13.00 crore. Modest revenues are attributed to the complexity of the equipment, time for approval and certification, among others. Also, its revenue visibility reflected by order book position is also modest at about Rs.25.00 crore to be executed over 18-24 months. Sustained growth in its revenues over the medium term is key rating sensitivity factor.

Liquidity:

SVPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.62 crore to Rs.1.54 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.25 crore over the same period. It is estimated to generate cash accruals of Rs.1.4-2.5 crore over the medium term against which its repayment obligations are about Rs.0.44 crore. The current ratio stood at 1.68 times as on March 31, 2018. The company is likely to incur capex of Rs.1.00 crore over the medium, which is likely to be funded by term loan and promoters' contribution. Efficiently managed working capital had led to moderate utilization of its bank lines at about 58 per cent over seven months through January 2019. Acuité believes that SVPL's liquidity is expected to be at similar levels over the medium term.

Outlook: Stable

Acuité believes that the outlook on SVPL will remain 'Stable' over the medium term on account of the experience of the promoters in the engineering industry and long term relationship with customers. The outlook may be revised to 'Positive' in case the entity registers significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.13	4.99	5.51
EBITDA	Rs. Cr.	1.58	0.95	0.76
PAT	Rs. Cr.	0.90	0.07	0.28
EBITDA Margin	(%)	14.24	19.12	13.82
PAT Margin	(%)	8.10	1.50	5.03
ROCE	(%)	32.13	12.46	51.48

Total Debt/Tangible Net Worth	Times	0.35	0.74	0.08
PBDIT/Interest	Times	9.52	4.54	4.11
Total Debt/PBDIT	Times	0.57	1.73	0.20
Gross Current Assets (Days)	Days	37	172	117

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	4.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE BB / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.74	ACUITE BB / Stable

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