

Press Release

SECON

December 06, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite 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**) on the Rs. 10.00 crore bank facilities of SECON. The outlook is '**Stable**'.

Secon is a partnership firm, established in the year 1987 by Mr. T. M. Chowdary. The firm undertakes manufacture of spares for marine, steel plants and other allied industry. The firm engages in fabrication of spares for marine and other industry. Their manufactured products are majorly used in Steel Plants, Ports and Refractory Industries.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive experience of the partners**

The rating draws comfort from the long-standing experience of the partners. Mr. T.M. Chowdary has been engaged in same industry for more than 3 decades and Mr. T Rohit has been engaged in the manufacturing and fabrication of spares and equipment industry for more than a decade. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers/suppliers of the firm include reputed names like Ship Building Center, Telangana Tourism Corporation, Visag Steel Plant. Through active participation, the partners have been build strong relations with customers and suppliers. Acuite believes that Secon will continue to benefit from the partner's established presence in the industry and its improving business risk profile over the medium term.

- **Moderate Financial Risk Profile**

The financial risk profile of the firm is moderate marked by moderate net worth, moderate gearing and healthy debt protection metrics. The net worth of the firm stood moderate at Rs.4.13 crore as on 31 March 2019 increased from Rs.3.66 crore as on 31 March 2018. The gearing of the firm stood moderate at 0.92 times as on 31 March 2019 and 1.04 times as on 31 March 2018. The interest coverage ratio (ICR) of the firm stood healthy at 2.55 times in FY2019 as compared to 2.03 times in FY2018. However, total outside liabilities to total net worth stood moderate at 1.62 times as on 31 March 2019 as compared to 1.86 times in as on 31 March 2018. Acuite believes that the financial risk profile will continue to remain moderate over the medium in absence of any major debt funded capex plan.

Weaknesses

- **Moderate scale of operation marked by uneven profitability**

Revenue is susceptible to volatility. Revenue recoded for FY2019 is Rs.10.66 crore as against Rs.13.59 crore for FY2018. The firm is exposed to customer concentration risk as around 61.44 per cent of its total sales in FY2019 have been derived from two customers -Ship Building Center, Deendayal Port Trust. However, Secon has started diversifying its customer base and started catering to other clients.

• Working capital intensive operation

Secon's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 204 days as on March 31, 2019. The GCA is mainly dominated by high inventory holding period of 90 days and receivables of 71 days for FY2019. Acuite believes that the operations of the firm to remain working capital intensive on account of the high inventory levels maintained.

• Competitive and fragmented industry

The manufacture of spares and equipment industry is highly fragmented and unorganized. SECON is exposed to intense competitive pressure from large number of organized and unorganized players along with its exposure to inherent cyclical nature of the steel industry.

Liquidity Position: Adequate

Secon has adequate liquidity marked average by cash credit limit remains utilized at ~75 per cent during the last six months period ended October 2019. Supported by cash accruals to the tune of Rs.0.44 crore in FY2019 against current portion of long-term debt of Rs.0.05 crores. However, the current ratio of the firm stood at 0.93 times as on 31 March 2019 and gross current asset days stood at 204 days in FY2019. To add comfort, the firm has cash and bank balances of Rs.1.30 crore as on 31 March 2019. The firm's reliance on working capital borrowings is average.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability margins
- Further deterioration in working capital cycle

Outlook: Stable

Acuite believes that Secon will maintain a 'Stable' business risk profile over the medium term based on its experienced management. The outlook may be revised to 'Positive' in case the firm registers a substantial increase in the scale of operations, while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected target in revenues or in case of deterioration in the firm's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	10.66	13.59
PAT	Rs. Cr.	0.33	0.35
PAT Margin	(%)	3.10	2.60
Total Debt/Tangible Net Worth	Times	0.92	1.04
PBDIT/Interest	Times	2.55	2.03

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

None

Any other information

None

Any Material Covenants

TOL/TNW to be maintained equal to or below 3.5 times for FY2019

Interest Coverage Ratio to be maintained equal to or above for 1.50 for FY 2019

Firm should not incur cash loss for FY2019

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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	6.00	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+

Contacts

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About Acuité Ratings & Research:

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