

Press Release

Secon

January 21, 2021



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 25.00 crore* (Enhanced from Rs. 10.00 crore)
Long Term Rating	ACUITE BB+/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 8.92 crore bank facilities of Secon. The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 0.48 crore bank facilities of Secon. The outlook is '**Stable**'.

Acuite has reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 15.60 crore bank facilities of Secon.

Reason for rating reaffirmation

The rating reaffirmation reflects significant improvement in financial risk profile and strong liquidity position of the firm. Further, Secon has been able to sustain its operations on the back of continuous and repetitive orders from the reputed customers with an improved operating income of Rs. 17.84 crore in FY2020 as against Rs. 10.66 crore in FY2019. In addition to this, the firm has a healthy unexecuted order book position of Rs. 69.83 crore.

The significant improvement in the overall financial risk profile is marked by improved gearing and debt-coverage indicators. Moderate profitability along with capital infusion of Rs. 0.62 crore has led to an increase in net worth from Rs. 4.13 crore as on March 31, 2019 to Rs. 4.99 crore as on March 31, 2020. Additionally, long-term borrowings stood low at Rs. 0.09 crore, with repayment obligation of about Rs. 0.05 crore for next two years. This has prompted improvement in gearing from 0.92 times as on March 31, 2019 to 0.03 times as on March 31, 2020, further supported by improvement in interest coverage ratio to 3.01 times as on March 31, 2020 as against 2.55 times as on March 31, 2019, debt service coverage ratio to 2.68 times as on March 31, 2020 as against 2.55 times as on March 31, 2019 and debt-to-EBITDA to 0.12 times as on March 31, 2020 as against 4.79 times as on March 31, 2019.

The rating reaffirmation also derives comfort from healthy liquidity position of the firm as evident from net cash accruals of Rs. 0.81 crores in FY2020 against maturing debt obligations amounting to Rs. 0.05 crore for the same period, thereby resulting in lower dependence on working capital limits with average utilization being as low as ~55 per cent.

About the firm

Established in the year 1987, Secon is a partnership firm engaged in the fabrication of spares for marine, various steel plants and other allied industries. The firm is being managed by Mr. T. Mahidhar Chowdary, Mr. T. Rajeshwari Chowdary and Mr. T. Rohit Chowdary. The firm is based in Vishakhapatnam, Andhra Pradesh, with a fabrication capacity of 250 MT p.a. and caters to reputed clients such as Indian Oil Corporation Limited, Telangana Tourism Development Corporation, Director General Naval Projects and Ship Building Center, to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

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

Secon was established in the year 1987 by Mr. T. Mahidhar Chowdary, Mr. T. Rajeshwari Chowdary and Mr. T. Rohit Chowdary. Mr. T. M. Chowdary has an experience of more than three decades and Mr. Rohit Chowdary has an experience of more than one decade in the aforementioned line of business. Active participation by partners in the business has helped the firm in developing long-term relationships with its customers and suppliers.

Owing to its established track record of operations and management experience, the company has booked the revenue of Rs. 17.84 crore in FY2020 as compared to Rs. 10.66 crore in FY2019 and Rs. 13.59 crore in FY2018. Further, the firm has booked revenue of Rs. 5.36 crore for the seven-months ended as on 31st October, 2020, while they have an unexecuted order book position of Rs. 26.59 crore with 60 per cent of the orders to be executed by the end of this financial year.

Acuite believes that Secon will continue to benefit from its established track record of operations, experienced management and long-standing relationships with its customers and suppliers.

- **Reputed clientele**

The firm achingly caters to government organizations such as Ship Building Center, Indian Oil Corporation Limited, Director General Naval Projects, Vishakhapatnam Steel plant and Telangana Tourism Development Corporation, to name a few. In addition to this, Secon is also executing orders for private institutions such as RHI Clasil Limited.

- **Above-average financial risk profile**

The financial risk profile of the firm is above-average marked by healthy gearing, above average debt protection metrics and coverage indicators.

The net worth is improved from Rs. 4.13 crore as on March 31, 2019 to Rs. 4.99 crore as on March 31, 2020, owing to infusion of capital of Rs. 0.62 crore and moderate profitability.

Secon has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.04 times and 1.86 times as on March 31, 2018, over the past three years. The leverage levels continue to remain healthy at 0.03 times as on March 31, 2020. The total debt of Rs. 0.14 crore as on 31 March 2020 comprised of long-term borrowings stood low at Rs. 0.09 crore, with repayment obligations of about Rs. 0.05 crore for the next two years. There is no short-term borrowings outstanding as on March 31, 2020.

Moderate profitability has led to above-average debt coverage indicators of the Secon marked by debt-service-coverage-ratio of 2.68 times as on 31st March, 2020 as against 2.55 times as on 31st March, 2019 and interest coverage ratio of 3.01 times as on 31st March, 2020 as against 2.55 times as on 31st March, 2019. Currently, there are no plans for capital expansion in the firm. Further, adequate net cash accruals have resulted in lower dependence on its working capital limits, resulting in an average utilization of ~55 per cent over the last seven months. Acuite believes that the financial risk profile of Secon will continue to remain healthy on account of moderate profitability.

Weaknesses

- **Moderate scale of operations**

The firm has reported operating income of Rs. 17.84 crore for FY2020 as compared to Rs. 10.66 crore in the previous year in spite of being in operation for more than three decades.

• Working capital intensive nature of operations

Secon has intensive working capital requirements marked by gross current assets (GCA) of 196 days in FY2020 as compared to 248 days in FY2019. This is on account of inventory holding period of 46 days in FY2020 as against 90 days in FY2019 and debtors' collection period of 98 days in FY2020 as against 66 days in FY2019. The average cash credit utilization for the past seven months stood at ~55 per cent ended October, 2020. Further, current ratio of Secon stood low at 0.99 times as on March 31, 2020. Creditors' payment period also stood high at 99 days. However, majority of these payments were settled in the month of April, 2020. Acuite expects the working capital operations of the Secon to remain moderately intensive on account of the level of inventory to be maintained and the credit given to its customers.

• 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.

Rating Sensitivity

- Significant improvement in the scale of operations.
- Significant deterioration in its working capital management.
- Improvement in profitability levels, thereby further improving firm's debt coverage indicators.

Material Covenants

None

Liquidity: Adequate

Secon has an adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The firm has generated cash accruals of Rs. 0.81 crore for FY2020, while its maturing debt obligations were Rs. 0.05 crore for the same period. The firm's working capital operations are intensive marked by Gross Current Asset (GCA) of 196 days for FY2020. The firm maintains unencumbered cash and bank balances of Rs. 0.22 crore as on 31 March, 2020. The working capital limit of Secon remains utilised at ~55 per cent in the last seven months till October, 2020. The current ratio of the firm stood at 0.99 times as on March 31, 2020. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that Secon will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and long-standing relationships with its customers. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	17.84	10.66
PAT	Rs. Cr.	0.56	0.37
PAT Margin	(%)	3.15	3.46
Total Debt/Tangible Net Worth	Times	0.03	0.92
PBDIT/Interest	Times	3.01	2.55

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04 December 2020	Cash Credit	Long term	5.00	ACUITE BB+/ Stable (Upgraded)
	Bank Guarantee	Short term	5.00	ACUITE A4+ (Reaffirmed)
06 December 2019	Cash Credit	Long term	6.00	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short term	4.00	ACUITE A4+ (Assigned)

*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 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	0.92	ACUITE BB+/ Stable (Reaffirmed)
Proposed Stand-by line of credit	Not Applicable	Not Applicable	Not Applicable	0.48	ACUITE BB+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.60	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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