

Press Release

Secon

April 19, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.60	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	9.40	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.25.00 Cr. bank facilities of Secon. The outlook is '**Stable**'.

Reason for rating reaffirmed

The rating reaffirmation is on account of stable operating performance despite the adverse impact of Covid 19 second wave. The rating continues to factor in the experienced management with long track record of operations, reputed clientele and adequate liquidity position of the firm. The ratings are constrained by the moderate scale of operations and the working capital intensive operations of the firm.

About the Company

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 and caters to reputed clients such as Indian Oil Corporation Limited, Telangana Tourism Development Corporation, Director General Naval Projects and Ocean sparkle Limited , to name a few.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles 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 firm has booked the revenue of Rs.16.68 crore in FY2022(Provisional) as compared to Rs.15.31 crore in FY2021. Further they have an unexecuted order book position of Rs.65.63 crore as on 31 March 2022.

Acuité 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 caters to government organizations such as Ministry of Defence, 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 Classil Limited.

Acuité believes that Secon will continue to benefit from catering to reputed clientele.

Comfortable capital structure and coverage indicators albeit modest net worth

Secon has a comfortable capital structure marked by low gearing of 0.38 times as on March 31, 2021 and 0.03 times as on March 31, 2020. However its net worth remained at a modest level of Rs. 8.46 Cr. as on March 31, 2021 despite the infusion of Rs. 3 Cr. by the partners in FY2021. The total debt of the firm comprises of short term borrowings of Rs.2.19 crore and long term debt of Rs.1.05 crore during the same period. The service coverage ratios stood moderate marked by interest coverage ratio of 3.30 times for FY21 as against 3.01 in FY20 and debt service coverage ratio of 3.30 times for FY21 against 3.01 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) improved and stood at 0.86 times as on March 31, 2021 against 1.99 times as on March 31, 2020. The debt to EBITDA of the firm declined to 2.90 times for FY21 compared against 0.12 times for FY20. Going forward, the firms gearing, and interest coverage is expected to be in the range of 0.21-0.27 times and 3.56-6.25 times over the medium term.

Acuité believes that the financial risk profile of the firm will continue to remain moderate on account of moderate business operations of the firm.

Weaknesses

Moderate scale of operations

The firm has a moderate scale of operations. It has reported operating income of Rs.16.68 Cr. for FY2022 (Provisional) against Rs.15.31 crore for FY2021 and Rs.17.84 crore in the previous year in spite of being in operation for more than three decades.

Working capital intensive operations

The operations of the firm are working capital intensive marked by increased and high GCA days of 254 days for FY21 compared against 196 days for FY20. The high GCA days is majorly on account of increase in the inventory days to 109 days in FY21 as compared to 46 days in FY20. The debtors days improved and stood at 51 days for FY21 as against 98 days for FY20. However, despite the elongation in working capital cycle Secon's bank limit utilization remained low at ~20 percent in last six months ended January 2022 as it receives advances from its clients which takes care of its working capital requirement.

The creditor days of the firm stood at 23 days for FY21 as against 100 days for FY20. The firm receives advance payments from the customers as stage payments when a certain percentage of work is done and certified by a third party. This may be the reason the bank limit utilization is low even when the operations are working capital intensive.

Acuité believes that the ability of the firm to efficiently manage its working capital cycle will remain a key rating sensitivity.

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 Sensitivities

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 Position: Adequate

The firm has adequate liquidity position marked by moderate net cash accruals against its maturing debt obligations. The company generated NCA of Rs.0.78 crore in FY21 against nil debt obligations during the same period. The cash accruals of the company are expected to remain around Rs.0.91 –Rs.1.52 crore during 2022-24 period while its matured obligations are estimated to remain low of around Rs.0.39 crore during the same period. Furthermore, the cash and bank balance of Rs.0.06 crore as on 31 March 2021 which further provides liquidity support to the firm. The operations of the firm are working capital intensive marked by high gross current asset (GCA) days of 254 days for FY21. The working capital requirement is funded through bank lines that have been utilized by around 20 percent in last six months ended January 2022. The current ratio of the firm stands moderate at 1.72 times as on March 31, 2021. Acuité believes that the liquidity of the firm will continue to remain adequate over the medium term on account of moderate cash accruals with moderate repayments over the medium term.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	15.31	17.84
PAT	Rs. Cr.	0.50	0.56
PAT Margin	(%)	3.25	3.15
Total Debt/Tangible Net Worth	Times	0.38	0.03
PBDIT/Interest	Times	3.30	3.01

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Jan 2021	Working Capital Demand Loan	Long Term	0.92	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Proposed Standby Line of Credit	Long Term	0.48	ACUITE BB+ Stable (Assigned)
	Proposed Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	10.60	ACUITE A4+ (Reaffirmed)
04 Dec 2020	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
06 Dec 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.60	ACUITE A4+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ Stable Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+ Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	0.90	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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