

Press Release

Captronic Systems Private Limited

October 29, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE B / Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (**read as ACUITE single B**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.20.00 crore bank facilities of Captronic Systems Private Limited (CSPL). The outlook is '**Stable**'.

About the company

Bangalore based Captronic Systems was established as a proprietorship in the year 1999 by Mr. Vinod Thomas Mathews. In 2004, it was reconstituted into a Private Limited Company named - Captronic Systems Private Limited (CSPL). CSPL is engaged into manufacturing of custom built Embedded Systems, Automated Test Equipment (ATE's), Automation & Data Acquisition services to Aero Defense, Space, Auto and Manufacturing industries.

The rating assigned to the bank facilities of Captronic Systems Private Limited factors in its established track record of operations, experienced management, reputed clientele base and improving the scale of operations. These strengths are offset by its working capital intensive nature of operations, weak financial risk profile, and elongated receivables period.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CSPL to arrive at the rating

Key Rating Drivers

Strengths

- Long track record of operations, experienced management, improving scale of operations and reputed clientele**

CSPL has a long track record of operations with its existence since 1999. Mr. Vinod Thomas Mathews (Managing Director) has more than two decades of experience in designing and development of automated test equipment. The promoters' extensive experience and long track record have helped CSPL in improving its scale of operations and build established relationships with its key suppliers and customers over the years. CSPL's revenue grew at a compounded annual growth rate (CAGR) of

24.63 percent over the period of FY2018-2020. CSPL generated revenue of Rs.26.84 Cr in FY2018, Rs.36.51 Cr in FY2019 and Rs.41.69 Cr in FY2020. CSPL has recorded revenue of Rs.11.10 Cr year-to-date until September, 2020 of FY2021. CSPL presently has an order book of Rs.22.00 Cr which is likely to be executed by December 2020; providing moderate near term visibility. CSPL has established relations with major clients such as Vikram Sarabhai Space Centre, Bosch Automotive Electronics India Private Limited, U R Rao Satellite Centre, Mahindra and Mahindra amongst others. Acuité believes that the CSPL will continue to benefit from its experienced management, long track of business operations and established relations with its customers and suppliers over the medium term.

Weaknesses

- **Weak financial risk profile**

The financial risk profile of the company remained weak with modest networth, capital structure and weak debt protection metrics. CSPL's net worth is negative as on March 31, 2019 and 2018 because of accumulated losses. The accumulated losses were repercussion of company's inability to achieve its break even sales of Rs.38.00 Cr due to the low order execution. In FY2020 the company turned around by posting net profit of Rs.1.77 Cr; led to positive networth of Rs.0.39 Cr as on March 31, 2020 as against negative Rs.1.59 Cr as on March 31, 2019 and Rs.1.83 Cr as on March 31, 2018. Debt to Equity (Gearing) remained in negative as on March 31, 2019 and March 31, 2018 on account of negative networth. The Debt to Equity (Gearing) stood at 34.74 times as on March 31, 2020 as against (6.42) times as on March 31, 2019 and (7.54) times as on March 31, 2018. Debt protection metrics are marked by below-average Debt Service Coverage Ratio (DSCR), interest coverage ratio and Net cash accruals to total debt (NCA/TD) stood at 1.09 times, 2.15 times and 0.17 times for FY2020 as against 0.64 times, 1.31 times, 0.06 times for FY2019, respectively. Acuité believes that in the absence of any major debt-funded capital expenditure, CSPL's financial risk profile is expected to improve yet remain weak over the medium term.

- **Elongated working capital cycle**

CSPL's working capital management improved, although remained intensive marked by high gross current assets (GCA) days of 246 days as on March 31, 2020 as against 313 days as on March 31, 2019. This is on account of high debtor days. CSPL usually provides a credit period of 45-90 days to its customers, but for government bodies, it may extend up to 160 days or beyond due to delay in clearances. Debtor days stood at 177 days and 229 days as on March ending 2020 and 2019, respectively. The above are offset by high creditor days stretched up to 276 days as on March 31, 2020 from 426 days as on March 31, 2019. The inventory days stood at 26 days and 12 days as on March 31 ending 2020 and 2019, respectively. The bank limits remained moderately utilized at around 71 percent for the last six months ended September 2020. Acuité believes that operations of the company are expected to remain working capital intensive over the medium term too.

Rating Sensitivities

- Bidding and execution of high orders leading improvement in revenue and profitability
- Any further deterioration in working capital management leading to deterioration in the financial risk profile and liquidity
- Lower-than-expected revenue or profitability leading to lower net cash accruals vis-à-vis its debt obligations

Any Material Covenants: None

Liquidity Position: Adequate

CSPL has adequate liquidity marked by modest net cash accruals as compared to its maturing debt obligations. CSPL generated net cash accruals of Rs.2.28 Cr for FY2020 vis-à-vis maturing debt obligations of Rs.1.94 Cr over the same period. The cash accruals are estimated to be around Rs.1.60-2.80 Cr during FY2021-23 vis-à-vis repayment obligations in the range of Rs.3.42 Cr to Rs.1.50 Cr. The maturing debt obligation of Rs.3.42 crores for FY21 is without considering a moratorium. Actual debt obligation considering the moratorium period of six months will be around Rs.1.80 Cr in FY20 against the estimated NCA of Rs.1.60 crores. The balance amount will be repaid with support of fund-based limits or unsecured loans from promoters. CSPL maintained unencumbered cash and bank balances of Rs.0.41 Cr as on March 31, 2020. The current ratio stood modest at 1.10 times as on March 31, 2020. The working capital limits of the company remained moderately utilized at 71 percent for the last six months ended September, 2020. Acuité believes that the liquidity of the company's liquidity is likely to remain adequate over the medium term on account of improvement in net cash accruals and promoters' contribution into the business.

Outlook: Stable

Acuité believes that CSPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of better-than-expected order book leads to higher revenue and profitability margin or improvement in working capital management leads to better financial risk profile and liquidity. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	41.69	36.51
PAT	Rs. Cr.	1.77	-0.01
PAT Margin	(%)	4.25	-0.04
Total Debt/Tangible Net Worth	Times	34.74	-6.42
PBDIT/Interest	Times	2.15	1.31

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

None

Any other information

None

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 (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
Over Draft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B/ Stable (Assigned)
Term Loan I	April 2020	8.05	April 2022	0.20	ACUITE B/ Stable (Assigned)
Term Loan II	June 2020	7.50	May 2024	0.40	ACUITE B/ Stable (Assigned)
Term Loan III	Feb 2018	10.00	Mar 2033	4.87	ACUITE B/ Stable (Assigned)
Term Loan IV	June 2014	15.50	August 2021	0.97	ACUITE B/ Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	2.06	ACUITE B/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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