



Press Release
Captronic Systems Private Limited
May 30, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.50	ACUITE BB+ Stable Upgraded	-
Bank Loan Ratings	11.50	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE B**' (Read as **Acuite B**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**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**'.

Rationale for Upgrade

The rating upgrade considers CSPL's improved operating performance marked by stable revenue and profitability and change in its management risk profile. As of August 2022, CSPL became a wholly owned subsidiary of Safran Data Systems Investment SAS which is a subsidiary France based 'Safran Electronics and Defense' with its ultimate parent 'Safran S.A' having a global presence and expertise in the defence and aerospace industries. The parent group has facilitated additional liquidity support to CSPL in terms of an over-draft facility (backed by its corporate guarantee) of Rs.35 crore, which is expected to enable CSPL to undertake higher value orders with longer execution cycles which would further augment the growth in its scale of operations. The revenue of CSPL stood at Rs.51.94 crore in FY2022 against Rs.45.04 crore in FY2021 and is expected grow to Rs.63.48 crore as per FY2023 (Prov.). The rating upgrade also considers the long track record of operations of CSPL and its reputed clientele. However, the rating remains constrained due to the intensive nature of working capital operations leading to elongated cycle and consequent strain on the liquidity profile.

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. In August 2022, it became a step-down subsidiary of the France based 'Safran Group'.

About the Group

Safran S.A. is a French multinational company that designs, develops and manufactures aircraft engines, rocket engines as well as various aerospace and defense-related equipment or their components. It was formed by a merger between SNECMA and the defense electronics specialist SAGEM in 2005. Safran's acquisition of Zodiac Aerospace in 2018 significantly expanded its aeronautical activities. The Safran Group was created on 11 May 2005 with the merger of Snecma and Sagem SA Safran Electronics & Defense, formerly known as Sagem Défense Sécurité, is a French company specializing in optronics, avionics and

electronic systems, as well as software for civil and military applications in the naval, aeronautical and space sectors. It is one of the ten entities that make up the Safran Group.

The company has three divisions: Avionics, Optronics & Defense and Safran Electronics.[12] Today, it has nine facilities in France and twelve subsidiaries spread across four continents. Safran Data Systems Investments SAS is a subsidiary of Safran Electronics & Defense.

Standalone (Unsupported) Rating

ACUITE BB-/stable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CSPL to arrive at this rating. The rating has been notched-up by considering support from its parent group – Safran Group (Safran Electronics and Defense) in the form of corporate guarantee provided for its working capital funding.

Key Rating Drivers

Strengths

Experienced management, established track record 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. As of August 2022, CSPL became a wholly owned subsidiary of Safran Data Systems Investment SAS which is a subsidiary France based 'Safran Electronics and Defense' with its ultimate parent 'Safran S.A.' having a global presence and expertise in the defence and aerospace industries. The parent group has inducted three directors on the Board of CSPL with Mr. Vinod Thomas Mathew continuing as the Managing Director of the Company. The founder - promoters' extensive experience and long track record of operations of CSPL has aided the company in building established relationships with its key suppliers and customers over the years. 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. Further, the change in ownership of the company and induction of experts on the board is expected to augment the business risk profile of CSPL over the medium term.

Improving revenues and profitability

The operating income of the company improved and stood at Rs.51.94 crore in FY2022 as against Rs.45.04 crore in FY2021. The revenue improved by 15.32 percent. However, the operating and net profit margin of the company moderated to 7.96 percent and 5.11 in FY2022 as against 8.63 percent and 6.48 percent in FY2021. The moderation in margins is primarily on account of increased employee and other administrative expenses. CSPL has recorded a revenue of Rs.63.67 crore for the year FY2023(Prov.) and the operating profitability is expected to be in the range of 12-12.5 percent. It has an unexecuted order book position of Rs.47.95 crore as of January 2023, executable during FY2024.

Moderate Financial risk profile

The financial risk profile of the company stood average marked by low net worth, moderate gearing, and moderate debt protection metrics. The tangible net worth stood at Rs.6.08 crore as on March 31, 2022, as against Rs.3.45 crore as on March 31, 2021. The total debt of the company stood at Rs.11.26 crore and includes Rs.7.00 crore of long-term debt, Rs.1.50 crore of unsecured loans and Rs.2.76 crore of short-term debt as on March 31, 2022. The gearing (debt-equity) improved and stood at 1.85 times as on March 31, 2022, as compared to 3.28 times as on March 31, 2021. Interest Coverage Ratio stood at 3.36 times for FY2022 as against 2.96 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.21 times for FY2022 as against 0.98 times for FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) improved and stood at 4.22 times as on March 31, 2022, as against 8.89 times on March 31, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.28 times for FY2022 as against 0.29

times for FY2021. As per the FY23 (Prov), gearing is expected to increase on account of increased short-term debt. CSPL has availed additional OD facility of Rs.35 crore backed by the corporate guarantee of parent company. ICR and DSCR are expected to improve to approximately 3.77 times and 1.67 times respectively while the overall gearing is estimated to increase over the medium term. Acuite believes that the financial risk profile of CSPL will remain moderate over the medium term in absence of any debt funded capex plan.

Weaknesses

Intensive nature of working capital operations

The company has an intensive working capital cycle marked by gross current assets (GCA) days of 165 days in FY2022 as against 226 days in FY2021. The receivable days stood at 121 days in FY2022 as against 162 days in FY2021. The inventory days stood at 20 days in FY2022 as against 8 days in FY2021. The average bank limit utilisation stood at high approx. 73 percent for the last 10 months ended January 2023. As per FY2023 (Prov), the GCA days are expected to increase to 376 days, led by 188 days of inventory and 211 days of debtors. The increase in inventory days is due to raw material and work-in-progress inventory outstanding at the year end. CSPL can extend its payables to support the working capital operations. Going forward, it is expected that the GCA days would remain high, as CSPL would be executing higher value orders, which usually span over a period of more than 1 year.

Tender based nature of operations

CSPL majorly executes tender based projects from government organisations. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. Acuite believes that CSPL's revenue and profitability are susceptible to risks inherent in tender based nature of operations.

Rating Sensitivities

- Improvement in the scale of operations while maintaining the profitability margin.
- Any further deterioration in working capital management leading to deterioration in the financial risk profile and liquidity.

Material covenants

None

Liquidity Position **Adequate**

CSPL has adequate liquidity marked by cash accruals of Rs.3.15 crore against maturing debt obligation of Rs.2.38 in FY2022. Cash accruals are expected to be in the range of Rs.4.65 crore to Rs.8.34 crore against maturing debt obligations in the range Rs.1.92 – 0.59 crore in the period FY23 to FY25.

The company's working capital operation are intensive marked by GCA days of 165 days in FY2022 and are further expected to stretch in FY2023, however the company also derives support by stretching its creditors. The current ratio of the company stood at 1.36 times as on March 31, 2022. The average bank limit utilization stood high at approx. 73 percent for the last 10 months ended January 2023.

Outlook: Stable

Acuite 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 leading to higher revenue and profitability margin or improvement in working capital management leading to better financial risk profile and liquidity position. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	51.94	45.04
PAT	Rs. Cr.	2.65	2.92
PAT Margin	(%)	5.11	6.48
Total Debt/Tangible Net Worth	Times	1.85	3.28
PBDIT/Interest	Times	3.36	2.96

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

CARE vide its press release dated 02 December 2022, has mentioned the rating of CSPL to 'CARE D/D' (Issuer Not Cooperating).

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2022	Term Loan	Long Term	4.65	ACUITE B Stable (Reaffirmed)
	Term Loan	Long Term	0.20	ACUITE B Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.33	ACUITE B Stable (Reaffirmed)
	Bank Guarantee	Short Term	11.50	ACUITE A4 (Reaffirmed)
	Secured Overdraft	Long Term	3.00	ACUITE B Stable (Reaffirmed)
	Term Loan	Long Term	0.32	ACUITE B Stable (Reaffirmed)
29 Oct 2020	Term Loan	Long Term	4.87	ACUITE B Stable (Assigned)
	Term Loan	Long Term	0.20	ACUITE B Stable (Assigned)
	Secured Overdraft	Long Term	2.00	ACUITE B Stable (Assigned)
	Term Loan	Long Term	0.40	ACUITE B Stable (Assigned)
	Term Loan	Long Term	0.97	ACUITE B Stable (Assigned)
	Bank Guarantee	Short Term	9.50	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	2.06	ACUITE B Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A4+ Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.36	ACUITE BB+ Stable Upgraded
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BB+ Stable Upgraded
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.41	ACUITE BB+ Stable Upgraded
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.41	ACUITE BB+ Stable Upgraded
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.32	ACUITE BB+ Stable Upgraded

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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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