

Press Release

ECO FUEL SYSTEMS INDIA PRIVATE LIMITED

December 13, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 24.50 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (**read as SMERA BB**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 24.50 crore bank facilities of ECO FUEL SYSTEMS INDIA PRIVATE LIMITED. The outlook is '**Stable**'.

Eco Fuel Systems India Private Limited (Eco Fuel Systems), incorporated in 2003, is a Mumbai-based company promoted by Directors, Mr. Virendra Vora and Ms. Vibha V Vora. The company is one of the leading importers and distributors of car conversion systems (LPG & CNG) of Lovato Gas S.p.A, Italy. It deals in conversion of three-wheeler and four-wheeler petrol vehicles to eco-friendly gaseous fuel LPG (Liquefied Petroleum Gas) & CNG (Compressed Natural Gas). The kits are in line with international standards and approved by the Automotive Research Association (ARAI), Vehicle Research and Development Establishment (VRDE) and Central Institute of Road Transport (CIRT). The kits are also registered with state transport authorities of Maharashtra, Delhi, Gujarat and Madhya Pradesh.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The company commenced operations in 2003 and has been able to establish long standing relations with reputed clients including Tata Motors, Honda, Uber, Ola among others. The company benefits from its experienced management and distribution network of around 55 dealers in India. The Directors have around a decades experience in the auto ancillary industry. SMERA believes that Eco Fuel Systems will continue to benefit from its experienced management and established relations with clients.

• Healthy profit margins

The EBITDA margins increased to a healthy 9.88 percent in FY2016 from 9.00 percent in FY2015 and declined to 8.58 percent in FY2017 (Provisional). The uneven trend was mainly on account of fluctuations in the product cost. The PAT margin stood at 3.70 per cent in FY2017 (Provisional) as against 3.73 percent in FY2016.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible networth of Rs.31.71 crore as on 31 March 2017 (Provisional) as against Rs.29.07 crore as on 31 March, 2016. The gearing improved to 0.75 times as on 31 March, 2017 (Provisional) as against 0.85 times as on 31 March, 2016. The total debt of Rs. 23.89 crore as on 31 March, 2017 mainly comprises working capital loan of Rs. 22.48 crore and unsecured term loan from Directors of Rs. 1.41 crore. The company has moderate interest coverage ratio of 2.50 times in FY2016-17 (Provisional) as against 2.32 times in FY2015-16. SMERA believes that Eco Fuel Systems will sustain its healthy financial risk profile in the absence of debt funded capex plans.

Weaknesses

• Working capital intensive operations

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

CIN: U74999MH2005PLC155683 | SEBI Permanent Registration No.: IN / CRA / 006 / 2011

The operations are working capital intensive marked by high gross current assets (GCA) of 294 days in FY2016-17 (Provisional) as against 359 days in FY2015-16 due to debtor days and inventory holding of 170 and 90 days respectively. The operations are working capital intensive as reflected in the fully utilised bank limit from Feb 2017 to July 2017. SMERA believes that the efficient working capital management will be crucial to the company to maintain a stable credit profile.

- **High dependence on Lovato GasS.p.A**

Eco Fuel Systems is an exclusive distributor of Lovato S.p.A - CNG and LPG kits in India. Since the company is highly dependent on Lovato S.p.A, any predicament faced by the supplier can affect business as well as the financial profile of the company.

- **Intense competition**

The company is exposed to intense competition from other players in the industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Eco Fuel Systems.

Outlook: Stable

SMERA believes that Eco Fuel Systems will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while maintaining operating profitability and improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in the area of operation or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, Eco Fuel Systems reported Profit after Tax (PAT) of Rs.2.43 crore on total operating income of Rs.65.11 crore compared with PAT of Rs 2.56 crore on total operating income of Rs.81.86 crore in FY2014-15. The tangible net worth stood at Rs.29.07 crore as on March 31, 2016 as against Rs.26.65 crore in the previous year. As per provisional financials for FY2016-17, Eco Fuel Systems reported PAT of Rs. 2.64 crore on total operating income of Rs.71.29 crore.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Jun-2016	Cash Credit	Long Term	INR 14.5	SMERA BB / Stable
	Letter of Credit	Short Term	INR 10	SMERA A4+
04-Dec-2014	Cash Credit	Long Term	INR 14.5	SMERA BB+ / Stable
	Letter of Credit	Short Term	INR 10	SMERA A4+
	Proposed Working Capital Demand Loan	Long Term	INR 10.5	SMERA BB+ / Stable
23-Jul-2013	Cash Credit	Long Term	INR 14.5	SMERA BB+ / Stable
	Letter of Credit	Short Term	INR 10	SMERA A4+
	Proposed Short Term Loan	Long Term	INR 10.5	SMERA BB+ / Stable

*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	14.50	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+

Contacts

Analytical	Rating Desk
Vinayak Nayak Head - Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Pawan Punmaji Analyst - Rating Operations Tel: 022-67141352 pawan.punmaji@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*