



SMERA RATINGS LIMITED

Sciencetech Technologies Private Limited (STPL)

*Rating
Rationale*

March 21, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	9.50	SMERA BB-/Negative (Assigned)
Bank Guarantee	0.50	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and a short-term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs.10.00 crore bank facilities of Sciencetech Technologies Private Limited (STPL). The outlook is '**Negative**'. The ratings are constrained by the company's exposure to technology obsolescence risk in an intensely competitive business environment. The ratings are also constrained by the company's declining revenues, deteriorating profitability and working capital-intensive operations. However, the ratings are supported by the company's low gearing (debt-equity ratio) and experienced management.

STPL, established in 1984, is an Indore-based company engaged in manufacturing and trading of testing and measuring instruments and technical training equipments. STPL is highly susceptible to technology obsolescence risk. The company is also exposed to intense competitive pressure. STPL's revenues declined from Rs.44.31 crore in FY2010-11 to Rs.37.39 crore in FY2011-12 and Rs.36.03 crore in FY2012-13 due to unfavourable changes in customer preferences (against the company's major products). Moreover STPL's operating profit margin declined from 16.81 per cent in FY2009-10 to 7.19 per cent in FY2012-13 on account of weak bargaining power against customers and higher commission rate paid to dealers amidst competitive pressure.

The company's working capital cycle is stretched ~165 days in FY2012-13, mainly on account of high level of inventory holding and delays in collection of dues from customers. STPL makes advance payments for imports and receives credit of up to 30 days from its local suppliers. The company's working capital-intensive operations are largely supported by healthy net worth of Rs.24.02 crore as on March 31, 2013. STPL's average utilisation of working capital limit is thus moderate at 71 per cent during July 2013 to December 2013. The company's gearing (debt-equity ratio) is low at 0.41 times as on March 31, 2013. STPL's interest coverage ratio is moderate at 2.10 times in FY2012-13.

STPL benefits from its experienced management. Mr. Ambrish Kela, managing director of STPL, has around three decades of experience in the company's line of business.

Outlook: Negative

STPL's rating has a 'Negative' outlook, primarily on account of the company's declining revenues and deteriorating profitability. The outlook may be revised to 'Stable' in case the company registers sustained improvement in operations by developing a favourable product mix.

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About the company

STPL is an Indore-based company promoted by Mr. Ambrish Kela and Mrs. Preeti Kela. STPL was established as a partnership firm in 1984 and converted into a private limited company in 2001.

STPL is engaged in manufacturing and trading of testing and measuring instruments and technical training equipment. The company's product a portfolio includes oscilloscopes, function generators, power supplies and trainers. STPL has recently ventured into development of customized ERP software for the education sector.

STPL is headquartered in Indore, Madhya Pradesh. The company has a manufacturing unit in Indore and 16 branch offices across major cities in India.

For FY2012-13, STPL reported PAT of Rs.0.68 crore on operating income of Rs.36.03 crore, as compared with PAT of Rs.2.38 crore on operating income of Rs.37.39 crore for FY2011-12. The company registered revenues of Rs.18.32 crore during April 2013 to December 2013. STPL's net worth stood at Rs.24.02 crore as on March 31, 2013, as compared with Rs.23.31 crore a year earlier.

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