

June 26, 2019

Safe-Tronics Automation Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Cash Credit)	4.00	4.00	[ICRA]B+(Stable); reaffirmed
Short Term – Non Fund Based	9.00	10.00	[ICRA]A4; reaffirmed
Long Term / Short Term – Unallocated	1.00	6.00	[ICRA]B+(Stable)/[ICRA]A4; reaffirmed
Short Term – Interchangeable	(5.00)	0.00	-
Total	14.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into consideration the long-standing experience of the promoters of Safe-Tronics Automation Private Limited (SAPL or the Company) in executing turnkey projects for the installation of fire and gas detection systems for oil and gas industry, and its reputed clientele profile comprising several large entities engaged in the oil exploration and production (E&P) business. Moreover, the company's exclusive supply arrangement with Detector Electronics Corporation (DEC), USA, which has a leading position in F&G detection systems, and its representation of Norriseal, USA which is a global leader in industrial hazard safety solutions provides comfort.

The ratings, however, remain constrained by SAPL's modest financial profile as evidenced by its small scale of operations, low and fluctuating profit margins, weak debt coverage indicators and stretched receivable position. The ratings also factor in exposure of SAPL's operations to slowdown in capital expenditure (capex) plans in oil and gas sector; and vulnerability of its profitability to fluctuations in input costs (raw material and labour) given the absence of price escalation clause in majority of the contracts. SAPL also faces significant forex risks on its import purchases, in absence of a natural hedge from commensurate export sales and lack of any active hedging mechanism. Additionally, it also faces pricing pressures due to tender based competitive bidding process for awarding contracts followed by most of the government owned oil and gas entities which impacts the overall profitability.

Outlook: Stable

ICRA believes SAPL will continue to benefit from the extensive experience of its promoters in executing turnkey projects related to fire and gas detection systems for oil & gas industry. The outlook may be revised to 'Positive' if healthy growth in revenues and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to 'Negative' if lower than expected cash accruals or stretch in the working capital cycle weakens the liquidity position.

Key rating drivers

Credit strengths

Long experience of promoters in execution of turnkey projects related to fire and gas detection systems – The promoters of SAPL, Mr. Avinash Pol and Mrs. Manjusha Pol have been engaged in the execution of turnkey projects related to fire and gas detection systems for oil and gas industry for over a decade. The company has executed projects for various reputed Government as well as private entities from the oil and gas sector.

Reputed client profile comprising large companies engaged in oil E&P business – SAPL's clientele is characterized by presence of several reputed clients engaged in oil exploration and production business. Some of the key clients of SAPL are Oil & Natural Gas Corporation Limited (ONGC), Bharat Petroleum Corporation Limited (BPCL), GAIL India Limited, Reliance Industries Limited (RIL), etc.

Exclusive supply arrangement with Detector Electronics Corporation, USA and representation of Norriseal, USA – SAPL has exclusive supply arrangement with DEC which has strong presence in fire and gas detection systems. SAPL also represents Norriseal which is one of the leading global players in providing industrial hazard safety solutions. Associations with such established players from safety solutions industry ensures steady order flow for the company.

Credit challenges

Financials profile characterised by small revenues, low profitability, moderate debt coverage indicators and stretched receivables – SAPL's financial profile remains modest as reflected by its scale of operations with revenues in the range of Rs 16 - 20 crore during last five fiscals and low and fluctuation profit margins. The company's operating profit margins (OPM) declined to 3.1% in FY2018 from 6.9% in FY2017 due to increased employee expenses and overheads but again improved to 10.5% in 9MFY2019. The company's debt coverage indicators witnessed significant decline in FY2018 due to lower profitability as reflected by interest coverage of 1.7 times, NCA/Total debt of 16% and TD/OPBDITA of 2.9 times as on March 31,2018 as compared to interest coverage of 4.4 times, NCA/Total debt of 134% and TD/OPBDITA of 0.5 times as on March 31,2017. The same recovered to some extent and stood moderate as on December 31,2018 due to improved profitability during 9MFY2019. SAPL's overall receivable levels have remained on a higher side and stood at 162 days as on December 31,2018, increased from 100 days as on March 31,2018 owing to delayed payments from clients. Subsequently, the liquidity position has been managed by stretching the payments to suppliers.

Order book position largely dependent on capex in oil and gas industry –SAPL's operations are largely dependent on order flow from the oil and gas industry. Any slowdown in capex plan in this industry has an impact on the company's order flow and hence revenues.

Absence of price escalation clause in majority of the contracts – SAPL does not have price escalation clause included in the business agreements in case of majority of the contracts. Absence of price escalation clause exposes the company to variation in raw material and labour costs.

Exposure to forex risks – Given the significant dependence of SAPL on imports and absence of active hedging mechanism, the company stands exposed to forex risks. Any unfavourable movement in forex could therefore exert pressure on company's margins.

Liquidity Position:

SAPL had a modest cash and liquid investments of Rs. 0.1 crore as on December 31, 2018. Its average monthly utilization of fund based working capital limits stood at 20% in 12 months period ended December 2018. Additionally, there are no significant external long-term debt or scheduled repayments in the near term, which gives some comfort to the liquidity position in the near term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company:

SAPL was established in 2007 by Mr. Avinash Pol and Mrs. Manjusha Pol for providing turnkey solutions encompassing designing, erection, commissioning and maintenance of fire and gas detection systems. It is an exclusive distributor of fire and gas detection systems manufactured by DEC in India and also has supply arrangements with entities like Norriseal (part of Dover Corporation, USA) for control valves to be used with Fire & Gas detector equipment, Rockwell Automation for supply of control systems and with MEDC (UK) for supply of hooters, alarms, beacons, etc. SAPL mainly caters to large public-sector undertakings (PSU) as well as private entities engaged in oil exploration and production business. In addition to installation the fire and gas detector system, SAPL also undertakes annual maintenance contracts of such systems.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	9MFY2019 (Provisional)
Operating Income (Rs. crore)	17.6	16.0	8.6
PAT (Rs. crore)	0.6	0.1	0.6*
OPBDIT/OI (%)	6.9%	3.1%	10.5%
RoCE (%)	21.5%	6.6%	18.8%
Total Debt/TNW (times)	0.1	0.3	0.2
Total Debt/OPBDIT (times)	0.5	2.9	0.8
Interest coverage (times)	4.4	1.7	3.1

*: PBT

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
1	Fund-Based	4.00	NA	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable) March 2018	[ICRA]B+ (Stable) February 2017	
2	Non-Fund-Based	10.00	NA	[ICRA]A4	-	[ICRA]A4	[ICRA]A4	
3	Unallocated	6.00	NA	[ICRA]B+ (Stable)/ [ICRA]A4	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B+ (Stable)/ [ICRA]A4	
4	Non-Fund-Based (Interchangeable)	-	-	-	-	[ICRA]A4	[ICRA]A4	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	4.00	[ICRA]B+(Stable)
NA	Bank Guarantee / Letter of Credit	NA	NA	NA	10.00	[ICRA]A4
NA	Unallocated	NA	NA	NA	6.00	[ICRA]B+(Stable) / [ICRA]A4

Source: Safe-Tronics Automation Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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