

February 28, 2017

## Safe-Tronics Automation Private Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund Based Limits	4.00	[ICRA]B+ (Stable); re-affirmed
Non-Fund Based Limits	9.00	[ICRA]A4; re-affirmed
Unallocated Limits	1.00	[ICRA]B+ (Stable) / [ICRA]A4; re-affirmed
<b>Total</b>	<b>14.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has re-affirmed the long-term rating assigned to the Rs. 4.00 crore<sup>1</sup> fund based bank limits of Safe-tronics Automation Private Limited ('SAPL' or 'the company')<sup>2</sup>. ICRA re-affirmed the short-term rating of [ICRA]A4 for the Rs. 9.00 crore non-fund based limits of the company.

ICRA has also re-affirmed the [ICRA]B+ and [ICRA]A4 ratings for the Rs. 1.00 crore unallocated limits of the company. The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings re-affirmation factors in the modest scale of SAPL's operations. Furthermore, as the company caters largely to the oil and gas industry, its operations remain dependent on the investments in the industry. Evidently, the operating income of the company had registered de-growth of 28% during FY2016 following a decline in the capital investments in the oil and gas sector. The rating further factors the absence of price escalation clauses in majority of the company's contracts, which exposes SAPL's profitability to variation in raw material and labour costs. The company's pricing flexibility is also impacted by the tender-based competitive bidding process for the contracts of Public Sector Units (PSUs) where contracts are awarded to the lowest bidder (L1). Furthermore, with more than 50% of the procurement being met through imports, SAPL's profitability remains vulnerable to any adverse fluctuations in foreign exchange in the absence of any hedging undertaken by the company.

The ratings, however, continue to favourably factor the long experience of SAPL's promoters in the execution of turnkey projects for the installation of F&G detection equipments for the oil and gas industry. Moreover, the company's exclusive supply arrangement with Detector Electronics Corporation, USA, which has a leading position in F&G detection systems, provides comfort.

### Key rating drivers

#### Credit Strengths

- Long experience of promoters in execution of turnkey projects related to F&G detection system for the oil and gas industry
- Exclusive supply arrangement with Detector Electronics Corporation (Det-Tronics), USA, which is an established manufacturer of F&G detection systems.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

**Credit Weakness**

- Modest scale of operation
- Order book position largely dependent on investment in oil and gas industry, exposing the company to revenue volatility risk.
- Absence of price escalation clause in majority of the contracts exposes the profitability to variation in raw material and labour costs; competitive bidding for contracts limits the pricing flexibility further.
- Susceptibility of margins to foreign exchange fluctuations, given the significant dependence on imports.

**Description of key rating drivers highlighted above:**

The operations of SAPL are modest with the company registering revenues of Rs. 15.61 crore in FY2016 and Rs. 15.98 crore in 9M FY2017. Although the company has orders-in-hand of Rs. 17.60 crore as on December 30, 2016, which are to be completed by FY2018 the scale of operations is expected to continue to remain modest. Moreover, the orders are mainly from the oil and gas industry, and thus the company's operations remain contingent to the cyclicity and capital investments in the industry. Furthermore, the company also caters to various PSUs where the contracts are awarded to the lowest bidder (L1). Thus, the company has to competitively bid for these tenders which impacts its pricing flexibility. These contracts generally do not have price escalation clauses, which further expose the company's profitability to any adverse fluctuations in the raw material and labour costs. Being the exclusive distributor of 'Det-Tronics' in India and due to its collaborations with international companies for the supply of components, imports form a significant portion of the company's procurement. Imports contributed to ~54% and ~62% of the total procurement in FY2016 and H1 FY2017, respectively. With sales being made entirely in the domestic markets, the margins of the company, thus remain vulnerable to any adverse fluctuations in the foreign currency in the absence of any hedging undertaken.

Nevertheless, the promoters of the company have an experience of over a decade in the industry, which coupled with its exclusive supply arrangement with Det-Tronics lend some comfort.

**Analytical approach:**

ICRA has assigned the ratings following a detailed evaluation of the issuer's business and financial risks.

**Links to applicable Criteria**

[Corporate Credit Rating –A Note on Methodology](#)

**About the Company:**

Incorporated in 2007, Safe-Tronics Automation Private Limited (SAPL) provides turnkey solutions for Fire & Gas (F&G) detection systems mainly for the oil and gas industry. The company is headed by Mr. Avinash Pol who has an experience of over a decade in the industry. SAPL is an exclusive representative for products of Detector Electronics Corporation (part of United Technologies Corporation, USA) in India. SAPL also has supply arrangements with entities like Norriseal (part of Dover Corporation, USA) for control valves, Rockwell Automation for supply of control systems and with MEDC (UK) for supply of hooters, alarms, beacons, etc. During FY2017, SAPL collaborated with GE, USA, for the exclusive distribution of their oil-on-water detection systems in India.

SAPL reported a net profit after tax and depreciation of Rs. 0.95 crore and Rs. 0.70 crore on an operating income of Rs. 21.61 crore and Rs. 12.12 crore for the period ended March 31, 2016 and September 30, 2016, respectively.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2015	Month-year & Rating in FY2014	
				Feb-17	Apr-16	Mar-15	Dec-13	
1	Fund-based limits	Cash Credit	4.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+	
2	Non-Fund based limits	Letter of Credit/ Bank Guarantee	9.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
3	Non-Fund based limits	Buyers Credit*	5.00	[ICRA]A4	[ICRA]A4	-	-	
4	Unallocated limits	-	1.00	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B+/ [ICRA]A4	-	-	

\*Sub-limit of Letter of Credit/Bank Guarantee

**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](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	4.00	[ICRA]B+ (Stable)
Letter of Credit/ Bank Guarantee	-	-	-	9.00	[ICRA]A4
Buyers Credit*	-	-	-	(5.00)	[ICRA]A4
Unallocated Limit	-	-	-	1.00	[ICRA]B+ (Stable)/ [ICRA]A4

\*sub-limit of Letter of Credit/Bank Guarantee

Source: SAPL

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About ICRA Limited:

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