

August 24, 2017

Captronic Systems Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	2.00	[ICRA]B+ (Stable); Revised from [ICRA]BB- (Stable)
Fund-based – Term Loan	0.82	[ICRA]B+ (Stable); Revised from [ICRA]BB- (Stable)
Non-fund based – Bank Guarantee	7.18	[ICRA]A4; Reaffirmed
Total	10.00	

* Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating from [ICRA]BB- (pronounced ICRA double B minus) to [ICRA]B+ (pronounced ICRA B plus) to Rs. 2.82-crore¹ fund based facilities of Captronic Systems Private Limited (CSPL)². ICRA has reaffirmed the short term rating of [ICRA]A4 to Rs. 7.18-crore non fund based facilities of CSPL. The outlook on the long-term rating is 'Stable'.

Rationale

The revision in the rating primarily takes into account significant debt repayments required to be made in FY2018 coupled with stretched liquidity position of the company on account of elongated collection period from governmental clients. ICRA also notes that the revenue and the margin of the company have been volatile over the last few years owing to project specific requirements of its customers and delays at customer end leading to deferment of revenue. Further, the ratings also take into consideration the group's seasonal cash flows, highly concentrated in third and fourth quarter, and the vulnerability of the group's margins to foreign exchange fluctuations. ICRA also takes note of high reliance of the company on 'National Instruments Corporation' for the procurement of critical hardware and software requirements; however, long standing relationship with the supplier and Captronics' status as a 'Platinum Alliance Partner' provides comfort to an extent.

The rating revision, however, continues to derive comfort from long standing experience of the management in custom automated test equipments, data acquisition and control systems majorly for defence and aerospace; and the company's technical competence, as reflected by its successful track record of design, development and execution of various types of projects across industries. The rating revision also takes into account CSPL group's renowned client base and its order book of Rs. 15.00 crore primarily from DRDO laboratories and automotive customers supporting its revenue visibility over the near term. The revision also notes the favourable business outlook for the company due to defence offset requirements and the fillip derived from 'Make in India' policy.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Established track record of promoter in custom automated test equipments, data acquisition and control systems** –The promoter has an overall experience of 24 years including over 18 years of experience in design and development of automated test equipments, data acquisition and control systems, majorly for defence and aerospace.
- **Long-term relationship with key customers** - The company has an established and renowned customer base which includes various defence laboratories under Defence Research and Development Organization (DRDO), ISRO, Department of Atomic Energy, Defence PSUs, Center for Airborne Systems (CABS), Aeronautical Development Agency (ADA), ISRO (Indian Space Research Organisation), Vikram Sarabhai Space Center (VSSC), Hindustan Aeronautics Limited (HAL) and Bharat Electronics (BEL)) etc.
- **Diversified product/service portfolio across industries** – The company provides range of products and services in the field of custom automated test controls and data acquisition and control systems for various industries. During 9M FY2017, the company derived ~46% of its revenues from defence segment and ~25% from aerospace segment where it has a strong presence. The company derived its remaining ~29% of its revenues from other industries such as automotive, manufacturing, power etc.

Credit weaknesses

- **Volatile revenues and profit margins** – The revenues and margins of the group have been volatile over the last few years owing to project specific requirements of its customers, and delays at customer end leading to postponement of revenue recognition.
- **Stretched liquidity position** - There are significant delays in the collection of receivables outstanding for a period of more than 6 months, resulting in high liquidity pressure as evidenced by fully utilised fund based and non fund based working capital facilities. The delays are more procedural in nature as the transactions are primarily either with government parties or as a contract where the company is a sub-contractor and the end customer is a government party.
- **Vulnerability of profitability to adverse currency movements** - The margins of the company are exposed to foreign currency fluctuation risk as it imports majority of the commercial off the shelf goods (COTS). Any adverse movement in foreign exchange rates could have an adverse impact on the company's margins, considering the company does not have any hedging in place.

Analytical approach: For arriving at the ratings, ICRA has combined the business risk and the financial risk profiles of Captronic Systems Private Limited and its three wholly owned subsidiaries in view of the companies (together referred as the CSPL group) being in the same line of business, under the same management team and having significant operational and financial synergies.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Captronic Systems Private Limited (CSPL) is primarily involved in design and development of custom automated test equipments, data acquisition and control systems. The company is also a system integrator for application development in aerospace, defence, automotive, manufacturing, and power sector solutions. It provides offshore outsourcing services for software development and validation testing.



CSPL has over 100 skilled and experienced personnel in 6 locations across India and offices in Sharjah (UAE) and Atlanta (USA). The company is an ISO 9001 and CSIA Level 1 certified company.

In FY2017, on a provisional basis, the company has reported a net profit of Rs. 2.21 crore on an operating income of Rs. 40.11 crore, as compared to a net loss of Rs. 7.09 crore on an operating income of Rs. 26.82 crore in the previous year.

Key Financial Indicators

	FY2016	FY2017*
Operating Income (Rs. crore)	26.82	40.11
PAT (Rs. crore)	(7.09)	2.21
OPBDIT/ OI (%)	(16.84)%	11.73%
RoCE (%)	(27.51)%	21.79%
Total Debt/ TNW (times)	1.15	1.60
Total Debt/ OPBDIT (times)	(1.99)	3.11
Interest coverage (times)	(3.00)	2.28
NWC/ OI (%)	19.26%	26.48%

* *Provisional Financials*

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg. (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				August 2017		Feb 2016	-
1	Cash Credit	Long Term	2.00	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	-
2	Term Loan	Long Term	0.82	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	-
3	Bank Guarantee	Short Term	7.18	[ICRA]4	-	[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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	2.00	[ICRA]B+ (Stable)
-	Term Loan	-	-	March 2021	0.82	[ICRA]B+ (Stable)
-	Bank Guarantee	-	-	-	7.18	[ICRA]A4

Source: the company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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