

Sahajanand Technologies Private Limited

June 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based Cash Credit	14.90	14.90	[ICRA]BB; Reaffirmed; Outlook revised to Positive from Stable
Long-Term Fund-Based Term Loan	0.10	0.10	[ICRA]BB; Reaffirmed; Outlook revised to Positive from Stable
Total	15.00	15.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) for the Rs. 15.00-crore¹ fund-based facilities of Sahajanand Technologies Private Limited (the company or STPL)². The outlook on the long-term rating is revised to Positive from Stable.

Rationale

The rating takes into account STPL's healthy recovery in FY2018 after witnessing muted revenue growth and sharp decline in profitability in FY2017, as reflected by healthy revenue growth of 154% coupled with sharp improvement in operating profitability. The revision in outlook factors in the expectation that STPL will be able to sustain the healthy growth momentum as witnessed in FY2018, on the back of increased sales from existing as well as new products developed in the recent past, while maintaining adequate profitability and liquidity levels. The rating continues to factor in the extensive experience of the promoters in the machine manufacturing segment for the diamond processing industry, and the company's diversified customer and supplier base.

However, the rating is constrained by the working capital intensive nature of the company's operations arising out of high inventory holding and elongated receivables, which impacts its liquidity and results in high reliance on working capital borrowings throughout the year. The rating is also constrained by the vulnerability of the company's profitability to fluctuations in raw material prices and exchange rates; and exposure of the company's prospects to demand from the diamond processing sector, which remains uncertain. The rating also takes into account the technological obsolescence risk, given the constant innovations in planning and laser-based technology, and competition from organised as well as unorganised players involved in the diamond processing machinery.

Outlook: Positive

ICRA expects STPL to continue to benefit from the extensive experience of the promoters in the manufacturing of machines for the diamond processing industry. The positive outlook reflects ICRA's expectation that STPL will be able to sustain the healthy growth momentum while maintaining adequate profitability levels as witnessed in FY2018, on the back of increased sales from existing as well as new products developed in the recent past. The rating may be upgraded if sustained

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

growth in revenues while maintaining healthy profitability levels and improvement in working capital cycle through faster collection of receivables and reduction in inventory levels strengthens the financial risk profile. The outlook may be revised to Stable if cash accruals are lower than expected, or any sizeable unanticipated debt-funded capital expenditure or stretch in the working capital cycle materially impacts the liquidity of the company.

Key rating drivers

Credit strengths

Extensive experience of the promoter in the manufacturing of machines for diamond processing industry – STPL was incorporated in 1993 for the development and manufacturing of machines for the diamond processing industry. STPL majorly manufactures two types of machines, diamond measurement and planning machines, and diamond laser cutting machines. The key promoter, Mr. Dhirajlal Katodia, has an extensive experience of nearly 25 years in the manufacturing of machines for the diamond processing industry. STPL has an in-house Research and Development (R&D) facility, wherein it strives to develop new and improved products and enhance its product profile.

Healthy recovery in FY2018 marked by strong revenue growth and improved profitability – After witnessing muted revenue growth and sharp decline in operating as well as net profitability in FY2017, the company reported a healthy recovery in FY2018. STPL's revenues witnessed a strong growth of 154% to Rs. 106.25 crore in FY2018 from Rs. 41.78 crore in FY2017 on the back of a 292% growth in sales volume of diamond planning machines and 48% growth in sales volume of laser machines. STPL's operating profit margins which had been on a declining trend since FY2013 onwards due to volatility in input costs and high fixed cost, improved significantly to 15.10% in FY2018 from 0.26% in FY2017. The improvement was due to lower raw material consumption charges and spreading of fixed costs over the increased operating income. The company reported a profit before tax of Rs. 17.01 crore in FY2018 as against a profit after tax of Rs. 0.38 crore in FY2017. The debt coverage indicators also witnessed an improvement in FY2018 compared to previous years on the back of healthy increase in profitability.

Diversified customer and supplier base – STPL has a diversified customer and supplier base spread across domestic as well as export markets of USA, Japan, Hong Kong and China. STPL's customer concentration risk remained moderate as reflected by its top five customers contributing 37% of total sales in FY2017 and 20% in 11M FY2018 (36% in FY2016). STPL's supplier concentration remained moderate as its top five suppliers contributed 41% of total purchases in FY2017 and 26% in 11M FY2018, as against 30% in FY2016.

Credit challenges

High working capital intensity of operations resulting from high inventory levels and stretched receivables, which impacts liquidity – STPL's working capital intensity has historically remained high on account of stretched receivables and elevated inventory levels. The company's inventory levels generally remain on a higher side given the high lead time of close to three months involved in import of key raw materials. The same stood at 203 days as on March 31, 2018 as compared to 378 days as on March 31, 2017. STPL's working capital intensity, although declined to 48% in FY2018 from 84% in FY2017 because of lower inventory days as on the financial year-end, continued to remain high at an absolute level. The debtor days continued to remain high and stood at 80 days as on March 31, 2018. The company's receivables outstanding for over 180 days increased to Rs. 4.63 crore as on March 31, 2018 from Rs. 1.14 crore as on March 31, 2017. Given the high inventory levels and elongated receivables, the company's working capital requirements throughout the year remain on a higher side as reflected by average monthly utilisation of working capital limits of 74% during the February 2017 to April 2018 period.

Vulnerability of profitability to fluctuation in raw material prices and foreign exchange rates – The main raw materials for STPL are critical components like laser diode, Q-switched lasers and motion controllers, which are imported on advance payment basis. STPL’s operating margins are primarily affected by the fluctuations in prices of these critical components, which in turn affects the sales realisations. Any adverse movement in the prices of the raw materials could have an adverse impact on its profitability, considering the limited ability to pass on the price hike owing to the intense competition in the industry. Further, given the sizeable imports, the company’s profitability remains exposed to forex risks, though a natural hedge from export sales mitigates the risk to an extent. In FY2017, STPL’s export sales stood at Rs. 8.58 crore while its imports stood at Rs. 20.84 crore.

Exposure to uncertain demand from diamond processing industry – STPL’s business operations remain exposed to an uncertain and cyclical demand from diamond processing industry. STPL also faces high industry concentration risk as sales from diamond processing industry contributes to more than 95% of the total sales in last few years.

Exposure to technological obsolescence risk – STPL manufactures machines for diamond processing industry, which continue to witness constant innovations in planning and laser-based technology. Any technical advancement, resulting into better output may impact the demand for the current product portfolio of the company. Nonetheless, the company has its own in-house R&D facility, which is recognised by DSIR, wherein it strives to develop new and improved products and enhance its product profile, to counter the technology obsolescence risk.

Competition from organised and unorganised players – STPL faces competition from large organised and established players, as well as from small unorganised players, mainly in the laser cutting machines segment, which limits its pricing flexibility and sales realisations, thereby putting pressure on its revenues and margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

STPL was incorporated in 1993 by Mr. Dhirajlal Kotadia and is engaged in the development and manufacturing of machines primarily for the diamond processing industry. The company manufactures machines for two major processing stages of diamond processing, viz. diamond analysis and planning, and cutting and polishing. The company’s manufacturing facility is located in Surat, Gujarat. STPL has also commenced 3D printing business from FY2017, though its contribution to revenues remains small at present.

In FY2017, STPL reported a net profit of Rs. 0.38 crore on an OI of Rs. 41.78 crore, as compared to a net loss of Rs. 0.90 crore on an OI of Rs. 35.39 crore in the previous year. Further, in FY2018 on a provisional basis, STPL reported a profit before tax of Rs. 17.01 crore on an OI of Rs. 106.25 crore.

Key Financial Indicators

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	35.39	41.78	106.25
PAT (Rs. crore)	-0.90	0.38	17.01*
OPBDIT/OI (%)	4.96%	0.26%	15.10%
RoCE (%)	1.62%	3.68%	24.99%
Total Debt/TNW (times)	0.34	0.45	0.50
Total Debt/OPBDIT (times)	8.18	182.20	1.92
Interest coverage (times)	0.95	0.06	9.95

*Profit before tax

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017 February 2017	Date & Rating in FY2016 February 2016
1 Fund-Based Cash Credit	Long-Term	14.90	-	June 2018 [ICRA]BB (Positive)	-	[ICRA]BB (Stable)	[ICRA]BB (Negative)
2 Fund-Based Term Loan	Long-Term	0.10	0.00	June 2018 [ICRA]BB (Positive)	-	[ICRA]BB (Stable)	[ICRA]BB (Negative)

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	14.90	[ICRA]BB (Positive)
NA	Term Loan	FY2015	12.50%	FY2017	0.10	[ICRA]BB (Positive)

Source: STPL

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