

Captronic Systems Private Limited

October 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit	2.00	2.00	[ICRA]B-(Stable); Downgraded from [ICRA]B+(Stable)
Long Term-Term Loan	0.82	-	-
Short Term-Bank Guarantee	7.18	8.00	[ICRA]A4; Reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating assigned to the Rs. 2.00-crore fund-based facilities of Captronic Systems Private Limited (CSPL) to [ICRA]B- (pronounced ICRA B minus) from [ICRA]B+ (pronounced ICRA B plus) and has reaffirmed the short-term rating assigned to the Rs. 8.00-crore non-fund based facilities at [ICRA]A4 (pronounced ICRA A four). The outlook on the long-term rating is Stable.

Rationale

The revision in the rating primarily takes into account the company's weak operational and financial performance, as reflected by an operating loss of Rs. 0.4 crore and a cash loss of Rs. 2.6 crore in FY2018, owing to delay in projects execution. The ratings also consider the company's weak financial risk profile, characterised by the modest scale of operation, high gearing, weak coverage indicators and high working capital intensity. The ratings also factor in the sizeable interest outgo and debt repayment obligations towards the loans availed, coupled with the stretched liquidity position on account of long collection period from Government clients. ICRA notes that the company's revenue and margin remained volatile over the last few years owing to project-specific requirements of its customers and delays at the customers' end, leading to revenue deferment. Further, the ratings consider the seasonality in cash flows, highly concentrated in the third and fourth quarters, and the vulnerability of the company's margins to foreign exchange fluctuations. ICRA also notes the company's high reliance on National Instruments Corporation for the procurement of critical hardware and software requirements. However, an established relationship with the supplier and CSPL's status as a Platinum Alliance Partner, provides comfort to an extent.

The ratings, however, continue to derive comfort from the management's extensive experience in custom-automated test equipment, data acquisition and control systems mainly 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 defence and aerospace projects. The ratings consider the company's renowned client base and its order book of Rs. 20.4 crore primarily from the Defence Research Development Organisation (DRDO) laboratories, Indian Space Research Organisation (ISRO) establishments and automotive customers supporting its revenue visibility over the near term. ICRA also notes the company's favourable business outlook due to the defence offset requirements and the fillip derived from the Make in India policy.

Outlook: Stable

ICRA expects CSPL will continue to benefit from the promoter's extensive experience in design and development of the custom-automated test equipment, data acquisition and control systems, majorly for defence and aerospace. Under the automotive segment, the company has acquired several new customers like Renault Nissan Technology & Business Centre, Visteon Electronics India Pvt. Ltd., Mahindra Research Valley etc, which are likely to support revenue growth and improve liquidity position. The outlook may be revised to Positive if substantial growth in revenues and profitability and better working capital management strengthen the overall financial risk profile. The outlook may be revised to Negative, in case lower-than-expected cash accruals or increase in working capital requirements, weakens the liquidity position of the company.

Key rating drivers

Credit strengths

Promoter's established track record in industry – The promoter has an overall experience of 26 years, including over 20 years of experience in design and development of automated test equipment, data acquisition and control systems, mainly for defence and aerospace. The company has increased its focus on the automobile sector as evident from the higher revenue contribution from it in FY2018.

Long-term relationship with key customers - The company has an established and renowned customer base, which includes various defence laboratories under DRDO, ISRO, Vikram Sarabhai Space Centre (VSSC), Centre for Airborne Systems (CABS), Aeronautical Development Establishment (ADE), Aeronautical Development Agency (ADA), Hindustan Aeronautics Limited (HAL), Bharat Electronics Limited (BEL), other PSUs etc.

Moderately diversified product/service portfolio across industries – The company provides a range of products and services in the field of custom-automated test controls, data acquisition and control systems for various industries. In FY2018, the company derived 31.7% of its revenue from the aerospace segment, 23.0% from the defence segment (where it has a strong presence) and the remaining 45.3% from the automotive sector and other industries such as manufacturing, power etc.

Credit challenges

Weak financial profile – The company's financial risk profile is characterised by the modest scale of operation, high gearing, weak coverage indicators and high working capital intensity. In FY2018, the company reported a net loss of Rs. 3.4 crore on an operating income (OI) of Rs. 28.4 crore.

Volatile revenues and profit margins – The company's revenues and margins have been volatile over the last few years owing to project-specific requirements of its customers, and delays at the customer end, leading to revenue deferment.

Stretched liquidity position - There are significant delays in the collection of receivables, which remain outstanding for over six months as the company generates a significant portion of the total revenues from supplies to Government agencies, resulting in high liquidity pressure as reflected by the fully-utilised fund-based and non-fund based working capital facilities.

Vulnerability of profitability to adverse currency movements - The company's margins are exposed to the foreign currency fluctuation risk as it imports a major portion of the commercial off-the-shelf (COTS) goods. Any adverse movement in the foreign exchange rates could adversely impact the margins, considering it does not have any hedging mechanism in place.

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

Captronic Systems Private Limited (CSPL) is primarily involved in the design and development of custom-automated test equipment, 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. It is an ISO 9001 and CSIA Level 1 certified company.

In FY2018, the company reported a net loss of Rs. 3.4 crore on an operating income of Rs. 28.4 crore, compared to a net profit of Rs. 1.6 crore on an operating income of Rs. 39.0 crore in the previous year.

Key financial indicators

	FY 2017 (Audited)	FY 2018 (Provisional)
Operating Income (Rs. crore)	39.0	28.4
PAT (Rs. crore)	1.6	-3.4
OPBDIT/ OI (%)	9.6%	-1.3%
RoCE (%)	20.6%	-3.8%
Total Debt/ TNW (times)	1.5	2.0
Total Debt/ OPBDIT (times)	3.4	-37.4
Interest Coverage (times)	1.8	-0.1

Source: Captronic Systems Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs Crore)	Date & Rating in FY2019 Oct 2018	Date & Rating in FY2018 Aug 2017	Date & Rating in FY2017	Date & Rating in FY2016 Feb 2016	
1 Cash Credit	Long Term	2.00	-	[ICRA]B- (Stable)	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	
2 Bank Guarantee	Short Term	8.00	-	[ICRA]A4	[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	-	-	-	2.00	[ICRA]B-(Stable)
NA	Bank Guarantee	-	-	-	8.00	[ICRA]A4

Source: Captronic Systems Private Limited

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