

Servocontrols Aerospace India Private Limited

February 07, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	2.50	2.50	[ICRA]BB- (Stable); Upgraded from [ICRA]B (Stable)
Term loans	9.00	9.00	[ICRA]BB- (Stable); Upgraded from [ICRA]B (Stable)
Interchangeable	(0.95)	(0.95)	[ICRA]BB- (Stable); Upgraded from [ICRA]B (Stable)
Fund-based facilities	0.50	0.50	[ICRA]A4; Reaffirmed
Non-fund based facilities	2.13	2.13	[ICRA]A4; Reaffirmed
Total	14.13	14.13	

Rationale

The rating upgrade factors in the healthy revenue growth of ~42.6% in FY2018 and significant revenue growth of ~145% in 8M FY2019 on the back of strong order inflow from its existing and new customers. The ratings also favourably factor in SAIPL's moderately healthy order-book position, providing revenue visibility over the near to medium term. The ratings draw comfort from the extensive experience of the promoters in the engineering industry and company's established relationship with its customers supporting its business prospects. The ratings also consider favourable outlook for defence and aerospace verticals and high entry barriers which restricts competition.

The ratings, however, continue to remain constrained by the company's moderate financial profile, marked by thin net margins, high gearing, and moderate coverage indicators. The ratings factor in the working-capital intensive nature of operations on account of high inventory holding requirements, resulting in constrained liquidity position as indicated by high utilisation of working-capital facilities. The ratings also factor in the company's high customer concentration with top-three customers contributing to ~67% of the revenues in FY2018.

Outlook: Stable

ICRA expects SAIPL will continue to benefit from the extensive experience of its promoters in the engineering industry and its strong operational profile and customer base. The outlook may be revised to 'Positive' if substantial and sustainable growth in company's cash accruals improves its liquidity position and if any improvement in its capital structure strengthens the overall financial profile. The outlook may be revised to 'Negative' if the company reports lower-than-expected accruals or any further stretch in working-capital cycle or debt-funded capital expenditure, leads to weakening of liquidity.

Key rating drivers

Credit strengths

Long experience of the promoters in the engineering industry – SAIPL’s promoters have over two decades of experience in the industry. SAIPL’s manufacturing unit is located on a 60,000 sq. ft. land at Hattargi area, Belgaum. The company has AS 9100 – Rev C certification and promoters have established relationship with customers, resulting in repeat orders.

Healthy revenue growth in FY2018 and current year– The company’s operating income grew by ~43% in FY2018 and ~145% in 8M FY2019 on the back of strong order flow from its existing and new customers. The company has a healthy unexecuted order-book of ~Rs. 23.0 crore as on January 2019, which is ~2.4 times of FY2018 revenues providing revenue visibility for the near term.

Healthy prospects for defence and aerospace industry – The robust growth potential of Indian Aerospace and defence industry attracts original equipment manufacturers (OEMs) in this sector to setup facilities in India which augurs well for the company.

Limited competition due to high entry barriers- With limited number of players in defense and aerospace industry, the competition remains low. Moreover, highly technical and capital-intensive nature of operations serves as entry barriers and restricts new entrants.

Credit challenges

Moderate financial risk profile – The company’s financial profile is moderate characterised by high gearing of 2.9 times as on March 31, 2018 and moderate coverage indicators with NCA/ total debt of 11% and Total debt / OPBITDA of 4.8 times for FY2018. The same have been impacted by the debt-funded capex incurred over the last two fiscals. While company’s operating margins have been healthy in the past, RocE has been moderate and it reduced to 10.2% in FY2018 from 13.0% in FY2017.

High customer concentration – SAIPL’s clientele include leading OEMs in aerospace industry such as Rafael Advance Defense Systems Ltd, Goodrich Aerospace Services Pvt. Ltd, Israel Aerospace Industries Ltd. (IAI), Walchandnagar Industries Limited, etc. In FY2018, SAIPL has high customer concentration with its top-three customers accounting for about 67% of the company’s overall revenues; however, reputed client base provides some comfort with respect to business prospects and counter party risk.

Liquidity Position

SAIPL’s liquidity position has been stretched due working-capital intensive nature of operations with high inventory holdings leading to high average utilisation of ~83% of working-capital facilities and ~100% drawing power for the period January 2018 to December 2018. SAIPL has term loan repayment obligations of Rs.0.90 – Rs.1.50 crore per annum over the next 4 years constraining the liquidity position. However, ICRA notes that the company’s liquidity position has been supported to an extent by unsecured loans from the promoters and group companies.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on standalone financial statements of the company

About the company

Incorporated in 2008, SAIPL is primarily involved in machining and fabrication of precision-engineering components, finding applications in aerospace and defence sectors. The company is promoted by Mr. Deepak Dhadoti and his brother, Mr. Dinesh Dhadoti, who are qualified engineers with extensive experience in the engineering industry. The company started its operations in 2008 and has over the last few years added several renowned customers, including Goodrich Aerospace Pvt. Ltd., Rafael Advance Defence Systems Ltd., Israel Aerospace Industries Limited – Israel, etc. The company is a tier-II supplier and it has AS 9100 – Rev C certification. SAIPL has set up a new manufacturing unit on a 60,000 sq. ft. land in Hattargi area of Belgaum in FY2017.

In FY2018, the company reported a net profit of Rs. 0.1 crore on an operating income of Rs. 9.3 crore compared to a net profit of Rs. 0.1 crore on an operating income of Rs. 6.5 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	6.5	9.3
PAT (Rs. crore)	0.1	0.1
OPBDIT/ OI (%)	33.9%	24.3%
RoCE (%)	13.0%	10.2%
Total Debt/ TNW (times)	2.2	2.9
Total Debt/ OPBDIT (times)	3.6	4.8
Interest coverage (times)	1.8	2.0

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 (Rs crore)	Date & Rating February 2019	Date & Rating in FY2018	Dec 2017	Date & Rating in FY2017	Date & Rating in FY2016	
1 Fund-based facilities	Long Term	2.50	-	[ICRA]BB-(Stable)	[ICRA]B (Stable)	[ICRA]B-(Stable); ISSUER NOT COOPERATING	[ICRA]B-	-	
2 Term loans	Long Term	9.00	6.70	[ICRA]BB-(Stable)	[ICRA]B (Stable)	[ICRA]B-(Stable); ISSUER NOT COOPERATING	[ICRA]B-	-	
3 Interchangeable	Long Term	(0.95)	-	[ICRA]BB-(Stable)	[ICRA]B (Stable)	[ICRA]B-(Stable); ISSUER NOT COOPERATING	[ICRA]B-	-	
4 Fund-based facilities	Short Term	0.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	-	
5 Non-fund based facilities	Short Term	2.13	2.13	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[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	Fund-based facilities	-	-	-	2.50	[ICRA]BB- (Stable)
NA	Term Loans	FY2015	-	FY2023	9.00	[ICRA]BB- (Stable)
NA	Interchangeable	-	-	-	(0.95)	[ICRA]BB-(Stable)
NA	Fund-based Facilities	-	-	-	0.50	[ICRA]A4
NA	Non-fund Based Facilities				2.13	[ICRA]A4

Source: SAIPL

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Nithya Debbadi

+91 40 40676515
nithya.debbadi@icraindia.com

R Srinivasan

+91 44 4596 4315
r.srinivasan@icraindia.com

Sahithya Nekkanti

+91 40 40676524
sahithya.nekkanti@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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