November 19, 2019

Sharpline Automation Private Limited: Rating downgraded to [ICRA]D/D and simultaneously upgraded to [ICRA]B- (Stable)/A4

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit(CC)	1.55	2.05	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
Fund Based - Term loan (TL)	2.11	1.29	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
Fund Based - Packing Credit (PC)	1.00	1.00	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D
Non-Fund Based - Bank Guarantee (BG)	5.71	4.50	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D
Non-Fund Based - Letter of Credit (LC)	1.50	1.50	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D
Unallocated	0.16	1.69	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
Total	**12.03**	**12.03**	

**Instrument details are provided in Annexure 1*

Rationale

The rating revision to [ICRA]D/[ICRA]D takes into account the irregularity in debt servicing by Sharpline Automation Private Limited (SAPL) in March 2018 and March 2019 as reflected in the auditor's reports. Post revision, the rating has been simultaneously upgraded to [ICRA]B- (Stable)/[ICRA]A4 due to the subsequent regularisation of debt servicing since and the completion of the curing period over the last six months.

The rating continues to remain constrained by SAPL's small scale of operations with a declining operating income (OI) in FY2019, coupled with a stretched liquidity position. The same is owing to the elongated receivables cycle and high lead time in retrofitting and reconditioning, resulting in high inventory holding, which has entailed high utilisation of the sanctioned fund-based limits. Further, ICRA notes the company's low bargaining power, compared to its large and more established clients, limits its pricing flexibility.

The rating, however, draws comfort from the promoter's extensive experience in the machine tool industry and the formidable entry barriers to the business because of high technical requirements. SAPL's reputed clientele across diverse industries also reduces sector-specific risks to an extent.

ICRA expects SAPL to benefit from the promoter's extensive experience, which has enabled it to establish a reputed customer base over the years.

Key rating drivers

Credit strengths

Technically qualified management with extensive experience in machine tool industry – The industry requires technical qualified professionals for retrofitting, reconditioning, designing and manufacturing special purpose machines (SPMs). The company's efficient design and execution team provides a competitive advantage over its peers. Further, the company's two-decade-long track record and demonstrated execution capabilities across sectors ensure healthy order inflows.

Reputed clientele across diverse industries reduces sector specific risks – SAPL has a reputed client portfolio of various Government and private companies across sectors such as steel, engineering, power generation, defence, aerospace and nuclear energy. The company's clientele across various industries mitigates the sector-specific demand risk to some extent.

Credit challenges

Instances of delays in debt servicing; however, following the curing period of the last six months, debt servicing has regularised – The company had delayed servicing its debt obligations due to its stretched liquidity position during March 2018 and March 2019, as reflected in the auditor's statement. However, as per lenders, the account has been regular in its debt servicing since May 2019.

High working capital intensity of operations; high lead time needed in retrofitting and reconditioning – The time needed to retrofit or refurbish machines typically ranges between four to eight months, which results in a high inventory holding. Further, the stage-wise payments from clients as well as delays in requisite client approvals result in high debtors outstanding and full utilisation of working capital limits. As a result, SAPL relies on creditor funding to partially meet its working capital requirements. The debtors position of the company decreased from Rs. 9.51 crore as on March 31, 2018 to Rs. 7.10 crore as on March 31, 2019; however, debtors of more than six months increased from Rs. 3.51 crore as on March 31, 2018 to Rs. 4.86 crore as on March 31, 2019. Coupled with higher inventory level, this led to stress in the liquidity position. The working capital intensity of the company as represented by NWC/OI deteriorated from 25.92% as on March 31, 2018 to Rs. 44.23% as on March 31, 2019.

Significant decline in scale of operations in FY2019 – The operating income of the company declined by 25.61% to Rs. 15.63 crore in FY2019 from Rs. 21.01 crore in FY2018 due to delays in execution of a few projects. The company has introduced diversification in its product line from retrofitting and refurbishment of machineries to manufacturing SPMs and ultra-testing system machines (UTS) through its associations for various reputed players in the industry. Due to the development of new customised products for each of its clients as per their specifications, there were delays in developing new machines since the same requires significant R&D. Further, the project was delayed to an extent by delays in receipt of requisite client approvals, which led to delayed generations of bills, thereby, hitting the top line of the company.

Vulnerability of profitability to change in product mix - SAPL derives revenues from two segments, materials and services, and the margins are primarily affected by changes in the product mix. While the service order is high margin yielding due to higher customisation involved, the contribution from material orders is relatively low. Further, the margins depend on the complexity of customisation involved per order. Profitability as represented by OPM declined marginally from 12.07% in FY2018 to 11.31% in FY2019. However, NPM stood at 5.24% in FY2019, almost in line with that of the previous year.

Limited bargaining power restricts pricing flexibility – SAPL's clientele of reputed Government and private players across industries results in limited bargaining power and restricts its pricing flexibility.

Liquidity position - Poor

The company had an outstanding term loan of Rs. 1.46 crore as on March 31, 2019. SAPL is expected to have an annual repayment of Rs. 0.39 crore in FY2020, Rs. 0.40 crore in FY2021 and Rs. 0.43 crore in FY2022. Due to moderate profitability, and high interest expense, the interest and debt coverage indicators are expected to remain weak. Moreover, due to an elongated receivable cycle from customers and higher inventory days, the working capital intensity of operations remains high, leading to almost full utilisation of the fund-based and non-fund based limits. Coupled with limited free cash of Rs. 0.11 crore as on March 31, 2019, this leads to a weak liquidity position. Going forward, the ability to improve its liquidity position, achieve a better working capital cycle by improving its debtors realisation and decreasing its inventory level, coupled with improvement in scale and profitability, remains critical.

Rating sensitivities

Positive triggers – The rating is likely to witness an upgrade for reasons such as improvement in liquidity position and working capital cycle, led by improvement in debtor's realisation and decrease in inventory days. Further, growth in the scale of operations to an extent that its competitive position is enhanced, and considerable increase in net worth level will also be a key trigger for an upward rating movement.

Negative triggers – Negative pressure on the rating could arise if further stretch in debtor's realisation and increase in inventory level lead to increase in working capital intensity and deterioration in liquidity position, causing a strain on timely debt servicing.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the company

About the company

Incorporated in 1995, Sharpline Automation Private Limited (SAPL) is in the business of machine tool retrofitting, refurbishing, reconditioning, designing and manufacturing of special purpose machines as per client specifications. At present, SAPL operates out of its manufacturing/assembling facilities in Navi Mumbai, Maharashtra.

In FY2019, SAPL reported a profit after tax (PAT) of Rs. 0.82 crore on an OI of Rs. 15.63 crore compared to a net PAT of Rs. 1.09 crore on an OI of Rs. 21.01 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	21.01	15.63
PAT (Rs. crore)	1.09	0.82
OPBDIT/ OI (%)	12.07%	11.31%
RoCE (%)	14.62%	11.29%
Total Outside Liabilities/Tangible Net Worth (times)	1.39	1.11
Total Debt/OPBDIT (times)	3.05	4.73
Interest Coverage (times)	2.00	1.46
DSCR	2.19	1.86

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 19 Nov 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 04 Oct 2018	Date & Rating in FY2018 11 Jul 2017	Date & Rating in FY2017 13 June 2016
1	Cash Credit (CC)	Long term	2.05	-	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D	[ICRA]B+ (Stable)	[ICRA]B (Stable)	[ICRA]B-
2	Term loan (TL)	Long term	1.29	1.29	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D	[ICRA]B+ (Stable)	[ICRA]B (Stable)	[ICRA]B-
3	Unallocated	Long term	1.69	-	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D	[ICRA]B+ (Stable)	[ICRA]B (Stable)	[ICRA]B-
4	Packing Credit (PC)	Short term	1.00	-	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D	[ICRA]A4	[ICRA]A4	[ICRA]A4
5	Bank Guarantee (BG)	Short term	4.50	-	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D	[ICRA]A4	[ICRA]A4	[ICRA]A4
6	Letter of Credit	Short term	1.50	-	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D	[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 (CC)	-	-	-	2.05	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
NA	Term loan (TL - 1)	FY2017	-	FY2023	0.78	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
NA	Term loan (TL - 2)	FY2018	-	FY2024	0.51	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
NA	Unallocated	-	-	-	1.69	Downgraded to [ICRA]D from [ICRA]B+ (Stable), and simultaneously upgraded to [ICRA]B- (Stable) from [ICRA]D
NA	Packing Credit (PC)	-	-	-	1.00	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D
NA	Bank Guarantee (BG)	-	-	-	4.50	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D
NA	Letter of Credit (LC)	-	-	-	1.50	Downgraded to [ICRA]D from [ICRA]A4, and simultaneously upgraded to [ICRA]A4 from [ICRA]D

Source: SAPL

Annexure-2: List of entities considered for consolidated analysis – NA

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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