

## Rating Rationale

4 Feb 2020

### Sai Surface Coating Technologies

**Brickwork Ratings upgrades/reaffirms the ratings for the bank loan facilities of Rs. 17.82 Crore of Sai Surface Coating Technologies ('SSCT' or 'the firm')**

#### Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous	Present
<b>Fund Based</b>					
Open Cash Credit	9.50	9.50	Long Term	<b>BWR C Assigned</b>	<b>BWR B/Stable Upgrade</b>
Term Loans	2.75	1.32			
<b>Fund Based</b>					
Supply Bill Purchase	3.00	3.00	Short Term	<b>BWR A4 Assigned</b>	<b>BWR A4 Reaffirm</b>
<b>Non Fund Based</b>					
Bank Guarantee	1.00	1.00			
Inland Letter of Credit	3.00	3.00			
<b>Total</b>	<b>19.25</b>	<b>Rs. 17.82 Crore (Rupees Seventeen Crore &amp; Eighty Two Lakhs Only)</b>			

\* Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

Note: Details of Bank facilities are provided in Annexure I

#### Ratings Action/Outlook

The ratings upgrade/reaffirm is on account of experienced partners in the executing of various general engineering and specialization in surface modification technologies, moderate financial risk profile and conduct of the account is satisfactory. However, the ratings are constrained by the moderate scale of operations and profitability margins, high geographic concentration in the revenue stream, constitution of the entity and working capital intensive nature of operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Sai Surface Coating Technologies'** business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the firm records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the firm reports significantly lower than expected performance, resulting in lower

than estimated coverage indicators, and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

## Key Rating Drivers

### Credit Strengths:

- **Experienced partners:** The partners have more than two decades of experience in the executing of various general engineering and specialization in surface modification technologies which has helped them to understand local market dynamics and established relationships with customers and suppliers.
- **Moderate financial risk profile:** Financial risk profile is moderate with moderate capital structure and debt service coverage metrics. Partners capital, gearing, interest service coverage ratio and debt service coverage ratio were around Rs.8.65 Crs, 1.99 times, 2.06 times and 1.37 times respectively as on 31<sup>st</sup> March 2019.

### Credit Challenges:

- **Moderate scale of operations and profitability margins:** Revenue remains small at around Rs 42.99 Crs for FY19 as against Rs.36.92 Crs for FY18. Operating profit margin and net profit margin were moderate at 16.48% and 2.21% respectively for FY19.
- **High geographic concentration in the revenue stream:** The firm generates its revenue mostly in the State of and Andhra Pradesh and Telangana.
- **Constitution of the entity as a partnership firm:** Constitution as a partnership firm has the inherent risk of a possible withdrawal of the capital by partners which can adversely affect its capital structure.

## Analytical Approach and Applicable Rating Criteria

As it is a firm, standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### Rating Sensitivities

The ability of the firm to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

### Positive:

- Sustained improvement in scale of operations with improved profitability margins and

capital structure.

- Specific credit metrics that could lead to an upgrade of SSCT's rating include (1) Total Debt/Partners capital below 1.0 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

**Negative:**

- Specific credit metrics that could lead to a downgrade if there is a decline in profitability margins, Total Debt/Partners capital exceeding 2.0 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.00 times.

**Liquidity Position: Moderate**

The firm does have debt repayment obligations. The firm's cash accruals are expected around Rs.3.24 crore against repayment obligations of around Rs.3.00 crores, which gives moderate cushion on its liquidity. Moderate working capital management has also led to moderate utilisation of its working capital limits at about 70 percent over the past one year.

**About the firm**

Sai Surface Coating Technologies (SSCT) was established as a partnership firm in February 2000, Hyderabad, Telangana. The firm engaged in the line of the general engineering and specialization in surface modification technologies. The major customers are the Government of India undertaking like BHEL of Hardwar, Bhopal, Varanasi, Hyderabad, DRDL, CAT (Indoor), HAL, Alstom (Switzerland), L&T etc. SSCT also manufactures Critical Industrial High Value Components and Sub- Assembly items of engineering goods installed capacity cannot be counted in quantity since the engineering components are different in sizes, dimensions and specifications.

Mr. M. Nageswara Rao is the managing partner of the firm.

**Key Financial Indicators**

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	36.92	42.99
EBITDA	Rs. Cr	6.74	7.08
Profit After Tax	Rs. Cr	0.83	0.95
Partners Capital	Rs. Cr	9.05	8.65
Total Debt/Partners Capital	Times	2.62	1.99
Current Ratio	Times	1.04	0.94

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Status of non-cooperation with previous CRA – Not Applicable**

**Rating History for the last three years**

Sl. No.	Facilities	Current Ratings (2020)			Ratings History		
		Type	Amount (Rs. Cr)	Ratings	2019 [Mar 01, 2019]1	2018	2017
1	Open Cash Credit	Long Term	9.50	<b>BWR B Stable Upgrade</b>	<b>BWR C Assigned</b>	-	-
2	Term Loans		1.32				
3	Supply Bill Purchase	Short Term	3.00	<b>BWR A4 Reaffirm</b>	<b>BWR A4 Assigned</b>	-	-
4	Bank Guarantee		1.00				
5	Inland Letter of Credit		3.00				
<b>Total</b>		<b>Rs. 17.82 Crore (Rupees Seventeen Crore and Eighty Two Lakhs Only)</b>					

1 amount rated Rs.19.25 Crs;

**Complexity Levels of the Instruments:**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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## Sai Surface Coating Technologies

### Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	Andhra Bank	Open Cash Credit	9.50	-	9.50
		Term Loan I	0.46	-	0.46
		Term Loan II	0.86	-	0.86
		Supply Bill Purchase	-	-	3.00
		Bank Guarantee	-	1.00	1.00
		Inland Letter of Credit	-	3.00	3.00
<b>TOTAL - Rupees Seventeen Crores and Eighty Two Lakhs Only</b>					<b>17.82</b>

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