



Press Release

Ess Ess Kay Engineering Company Private Limited (SSK)

(Additional Limits)

June 03rd, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	30.00 (Enhanced from Rs. 25.00 Crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirm
2.	Long Term Fund Based Facility – Term Loans	1.34	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
3.	Short Term Fund Based Facility – Bill Discounting	0.25	IVR A4+ (IVR Single A Four Plus)	Assigned
4.	Short Term Non Fund Based Facility – Letter of Guarantee	17.50	IVR A4+ (IVR Single A Four Plus)	Assigned
5.	Proposed Short Non Fund Based Bank Facility	0.31	IVR A4+ (IVR Single A Four Plus)	Assigned
	Total	49.40		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from established track record of operations and experienced management, comfortable financial risk profile and revenue visibility via adequate order book levels. However, the rating strengths are partially offset by working capital intensive operations and customer concentration plus the intense competition within the industry.

Key Rating Sensitivities:

- **Upward Factor**
 - Substantial improvement in scale of operations while improving profitability margins and the debt protection measures.
- **Downward Factor**
 - Any decline in the revenue and/or profitability.



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- Significant deterioration in debt protection parameters

Key Rating Drivers with detailed description

Key Rating Strengths

- **Established track record of operations and experienced management:**

SSK was incorporated in the year 1964, thus has a long track record of operations in the said industry. Being in the particular industry for a considerable amount of time has helped the company in maintaining good relations with its customers while maintaining steady revenue growth. The current promoter, Mr. Nitin Khosla (Managing Director), himself has more than 4 decades of experience in manufacturing of electrical switches and allied products.

- **Comfortable financial risk profile:**

The financial risk profile of the company is comfortable marked by moderate net worth, comfortable gearing and moderate debt protection metrics. Gearing is comfortable at 1.09x as on March 31st, 2019 as against 1.50x as on March 31st, 2018. The tangible net worth stood at Rs. 25.29 Crore as on March 31st, 2019 when compared to Rs. 16.41 Crore as on March 31st, 2018 largely due to the moderate accretion in reserves due to its profitable operations. Interest coverage (ICR) stood at 2.69x as on March 31st, 2019. Even with the high working capital intensive type of industry, the TOL/TNW is moderate at 3.24x as on March 31st, 2019 as against 5.48x as on March 31st, 2018.

- **Revenue visibility via the adequate order levels:**

The company has a long standing association with the Indian Railways and has been supplying power and control cabinets for cabin cars and heating ventilation and air conditioning units for over two decades now. Primarily from the Indian Railways, the company has an overall unexecuted order book of around Rs. 116 Crore as on beginning April 2020 and majorly to be executed in FY2021. Well established relations with the Indian Railways shall result in steady order flows in the future for the company.

Key Rating Weaknesses

- **Working capital intensive operations:**



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The working capital intensive nature of operation is marked by high debtor days and the inventory holding periods. The debtor days stood at 107 days in FY2019 largely due to longer realization period from its customers. Also, as the company has around 600 SKU, and hence the inventory period remains high as it has to deliver the order on a timely basis and at the same time having tight delivery schedule. Also, the company has reduced its working capital limits and since then, the utilisation levels of it have remained almost full.

- **Customer concentration and intense competition:**

Owing to low complexity of work involved, the said industry is characterised by the presence of a large number of organized and unorganized players resulting in pressure on margins and restricting bargaining power thereafter. Also, the company faces customer concentration risk, with the Indian Railways being its major client, accounting for almost 87% of the total revenues in FY2019.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for manufacturing entities

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has adequate liquidity marked by adequate net cash accruals to the maturing debt obligations. The business operations continue to remain working capital intensive and thus keeping high reliance on working capital borrowings. The liquidity is expected to remain adequate in the medium term with no major capex planned, it also has a cash & cash equivalent (includes restricted cash) of Rs. 4.26 Crore as on March 31st, 2019. The current ratio remains at 1.27x in FY19.

About the Company

Ess Ess Kay Engineering Company Private Limited (SSK) was incorporated in the year 1964 and engaged in into manufacturing of modular switches, regular switches, board mounting switches, MCB, changeover switches, distribution board and panels, power control panels, mounted air conditioning unit for Indian Railways and LED lights, etc. The company currently operates under the brand name of 'SSK'. Presently, the business operations are over seen



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by Mr. Nitin Khosla (Managing Director) and have been into the business and in the industry since almost 4 decades.

Financials:

(Rs. Crore)

For the year ended/ As On*	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	132.16	133.93
EBITDA	12.54	11.88
PAT	3.43	8.83
Total Debt	42.87	38.00
Tangible Net-worth	16.41	25.29
EBITDA Margin (%)	9.49	8.87
PAT Margin (%)	2.59	6.33
Overall Gearing Ratio (x)	2.61	1.50

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of Ess Ess Kay Engineering Company Private Limited to Issuer Non-Cooperating category as per the Press Release dated April 01st, 2020.

Any other information: N.A

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (May 28 th , 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facility – Cash Credit	Long Term	30.00 (Enhanced from Rs. 25.00 Crore)	IVR BB+/Stable	IVR BB+/Stable	--	--
2.	Long Term Fund Based Facility – Term Loans	Long Term	1.34	IVR BB+/Stable	--	--	--
3.	Short Term Fund Based Facility –	Short Term	0.25	IVR A4+	--	--	--



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	Bill Discounting						
4.	Short Term Non Fund Based Facility – Letter of Guarantee	Short Term	17.50	IVR A4+	--	--	--
5.	Proposed Short Non Fund Based Bank Facility	Short Term	0.31	IVR A4+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	30.00 (Enhanced from Rs. 25.00 Crore)	IVR BB+/Stable
Long Term Fund Based Facility – Term Loans	NA	NA	December 2023 – February 2027	1.34	IVR BB+/Stable
Short Term Fund Based Facility – Bill Discounting	NA	NA	NA	0.25	IVR A4+
Short Term Non Fund Based Facility – Letter of Guarantee	NA	NA	NA	17.50	IVR A4+
Proposed Short Non Fund Based Bank Facility	NA	NA	NA	0.31	IVR A4+