

Press Release

SHANKER COILS PRIVATE LIMITED

May 27, 2019

Rating Upgraded



| | |
|-------------------------------------|------------------------------------------------------------------|
| Total Bank Facilities Rated* | Rs. 9.20 Cr. |
| Long Term Rating | ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable) |
| Short Term Rating | ACUITE A4+ (Upgraded from ACUITE A4) |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.9.20 crore bank facilities of SHANKER COILS PRIVATE LIMITED (SCPL). The outlook is '**Stable**'.

The rating upgrade takes into account the growth in revenues, improvement in the profitability margins and improving coverage indicators. However, rating is constrained due to modest scale of operations and below average financial risk profile.

SCPL, established in 1989 is a Kolkata-based company engaged in manufacture of armature and stator coils used in the heavy engineering industry. The company also undertakes rendering, repairing and rebuilding services for the Indian Railways, Tata Steel, ONGC, SAIL among others. The company's manufacturing facilities are located at Budge Budge, West Bengal and the overall operations are managed by the Directors, Mr. Nikunj Bagaria and Nirmal Kumar Bagaria.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Shanker Coils Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced promoter**

The firm established in 1989 is involved in manufacture of armature and stator coils used in the heavy engineering industry. The promoter is a veteran in the industry with more than three decades of experience which lead to steady revenues. Acuite believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

- **Comfortable financial risk profile**

The financial risk profile is marked by healthy capital structure and comfortable debt protection metrics. The gearing improved to 0.61 times in FY2018 compared to 0.86 times in FY2017 and further, it stood at 0.57 in FY19 (Provisional). This is mainly on account of repayment of long term debt. The net worth is modest at Rs.6.12 crore in FY2018 as against Rs.5.42 crore in FY2017; owing to balance accretion to reserves. Moderate profitability and low reliance on debt lead to comfortable interest coverage ratio and net cash accruals to total debt of 3.4 and 0.34 times in FY2018 vis-à-vis 2.76 and 0.21 times in FY2017, respectively. The company's cash accruals are expected in the range of Rs.1-1.5 crores against nil repayment obligations over the medium term which gives adequate cushion for the incremental working capital requirements and the liquidity.

Weaknesses

• **Moderate Working Capital Management**

The Company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 127 days as on March 31, 2018 as against 123 days as on March 31, 2017. This is due to high level of raw materials which they have to maintain. Moreover their major customer includes Indian Railways and other customer like Tata Steel, ONGC, SAIL, Coal India and offers credit of about two months to its clientele; resulted in higher receivable days of about 55 as on March 31, 2018 (47 days in FY2017). The creditor days also remain high at 117 days in FY2018 compared to 113 days in FY2016. This has led to higher reliance on working capital borrowings and it utilised at an average of 98 per cent over 12 months through March, 2019. Acuite believes that the operations remain at similar levels over the medium term.

• **Modest scale of operations**

The scale of operation stood modest at Rs.24.50 crore in FY2018 as compared to Rs.20.13 crore in FY2017. The company reported revenues of Rs.24.32 crore in FY2019 (Provisional).

Liquidity:

SCPL has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.0 to 1.5 crore during the last three years through 2017-18, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs.1.0-1.5 crore during 2019-21. The company's operations are high working capital intensive as marked by gross current asset (GCA) days of 127 in FY 2018. This has led to higher reliance on working capital borrowings with cash credit utilisation at 98 percent over 12 months through March, 2019. The company maintains unencumbered cash and bank balances of Rs.0.23 crore as on March 31, 2018. The current ratio of the company stands at 1.05 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain at similar levels over the medium term on account of moderate cash accruals and working capital intensive operations over the medium term.

Outlook: Stable

Acuite believes that SCPL will maintain a stable outlook in the medium term backed by its promoter's extensive experience. The outlook may be revised to Positive in case of significant improvement its revenues while sustaining the profitability and capital structure. Conversely, the outlook may be revised to Negative if there is any stretch in its working capital cycle leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY2019 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|----------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 24.32 | 24.50 | 20.13 |
| EBITDA | Rs. Cr. | 2.33 | 1.99 | 1.99 |
| PAT | Rs. Cr. | 1.01 | 0.83 | 0.57 |
| EBITDA Margin | (%) | 9.56 | 8.13 | 9.67 |
| PAT Margin | (%) | 4.13 | 3.37 | 2.84 |
| ROCE | (%) | 17.14 | 15.63 | 30.30 |
| Total Debt/Tangible Net Worth | Times | 0.57 | 0.61 | 0.86 |
| PBDIT/Interest | Times | 3.37 | 3.40 | 2.76 |
| Total Debt/PBDIT | Times | 1.73 | 1.81 | 2.34 |
| Gross Current Assets (Days) | Days | 115 | 127 | 123 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|----------------------------------------------|
| 09-May-2019 | Cash Credit | Long Term | 2.50 | ACUITE B+ (Issuer not cooperating)* |
| | Term Loan | Long Term | 0.45 | ACUITE B+ (Issuer not cooperating)* |
| | Proposed Long Term Loan | Long Term | 2.25 | ACUITE B+ / Stable (Issuer not cooperating)* |
| | Bank Guarantee | Short Term | 2.00 | ACUITE A4 (Issuer not cooperating)* |
| | Letter of Credit | Short Term | 2.00 | ACUITE A4 (Issuer not cooperating)* |
| 12-Mar-2019 | Cash Credit | Long Term | 2.50 | ACUITE B+ / Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.45 | ACUITE B+ / Stable (Reaffirmed) |
| | Proposed Long Term Loan | Long Term | 2.25 | ACUITE B+ / Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |
| 16-Nov-2016 | Cash Credit | Long Term | 2.50 | ACUITE B+ / Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.45 | ACUITE B+ / Stable (Reaffirmed) |
| | Proposed Long Term Loan | Long Term | 2.25 | ACUITE B+ / Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A4 (Reaffirmed) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-------------------------|------------------|----------------|----------------|-----------------------------|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE BB- / Stable (Upgraded) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.45 | ACUITE BB- / Stable (Upgraded) |
| Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.75 | ACUITE BB- / Stable (Upgraded) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE A4+ (Upgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4+ (Upgraded) |
| Packing Credit | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A4+ (Upgraded) |

Contacts

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|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
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About Acuité Ratings & Research:

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