

Press Release

Shakthi Tech Manufacturing India Private Limited

(STMIPL)

28 February, 2018



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.45.30 Cr. (Enhanced from Rs.18.30)
Long Term Rating	SMERA BB/ Outlook: Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 15.30 crore bank facilities of Shakthi Tech Manufacturing Private Limited (STMIPL). The outlook is '**Stable**'.

Further, SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 30.00 crore bank facilities.

STMIPL was incorporated in 2013 by Mr. M. Angou and Mrs. Usha Angou to take over the existing business of Shakthi Tech, a proprietorship concern established in 2006. The company is engaged in the manufacturing of machined casting and pump parts. STMIPL has three manufacturing units in Coimbatore.

Key rating drivers

Strengths

Long standing experience of promoters

STMIPL, incorporated in 2013 is headed by Ms. Usha Angou who has more than two decades of experience in the said line of business.

Reputed clientele with healthy order book position

STMIPL caters to reputed clients including Indian railways, Weir Group, Midland Manufacturing, Mclellan industries among others and benefits from repeat orders. The company has orders in hand worth ~Rs.40 crore to be executed in FY2019 that provides medium term revenue visibility.

Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs.7.80 crore as on 31 March, 2017 as against Rs. 6.53 crore as on 31 March, 2016. The gearing stood at 3.01 times as on 31 March, 2017 as against 2.11 times as on 31 March, 2016. The total debt of Rs.23.48 crore outstanding as on 31 March, 2017 comprises term loan from bank of Rs.17.07 crore, unsecured loan from promoters of Rs. 0.58 crore and Rs.5.83 crore as working capital borrowing from banks. The ICR declined to 2.98 times in FY2017 from 4.98 times in FY2016 owing to increase in interest cost in FY2017. The net cash accruals stood at Rs.3.45 crore in FY2017 as against Rs.4.14 crore in FY2016.

Weaknesses

Working capital intensive operations

The operations are working capital intensive reflected in the GCA days of 226 in FY2017 as against 135 days in FY2016. This is majorly on account of increase in inventory holding period to 58 days in FY2017 as against 14 days in FY2016. The increase in inventory is due to delay in execution of a government order. The creditor days are stretched to 430 days in FY2017 from 173 days in FY2016 and debtor days increased from 79 days in FY2016 to 93 days in FY2017. The payment terms for the company are generally 60-90 days from government entities and 120 days from exports. The average utilisation of working capital facilities is around ~80 per cent for the last six months ended January 2018.

Margins are susceptible to fluctuations in raw material prices and tender based business

STMIPL's profitability margins are susceptible to fluctuations in raw material prices of steel and iron. The company procures raw materials from local suppliers. On an average, raw materials accounts for around 50 percent of the net sales. The orders are tender based – reason for a fluctuating revenue profile. The revenue stood at Rs. 35.75 crore in FY2017 as against Rs.41.62 crores in FY2016 and Rs. 21.71 crores in FY2015. Further, the company booked revenue of Rs. 35.00 for the period April to December 2017 (Provisional). The business profile is highly dependent on the successful bidding of projects. SMERA believes that the ability of the company to maintain its profitability margins and execute orders on time will be a key rating sensitivity.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Shakthi Tech Manufacturing India Private Limited (STMIPL) to arrive at the rating.

Outlook – Stable

SMERA believes that STMIPL will maintain a stable outlook over the medium term on account of its experienced management and established relations with reputed clients. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining comfortable debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	35.75	41.62	21.71
EBITDA	Rs. Cr.	6.86	6.70	3.82
PAT	Rs. Cr.	1.27	2.39	1.26
EBITDA Margin	(%)	19.18	16.11	17.61
PAT Margin	(%)	3.55	5.75	5.80
ROCE	(%)	18.08	29.30	22.37
Total Debt/Tangible Net Worth	Times	3.01	2.11	2.18
PBDIT/Interest	Times	2.98	4.98	4.31
Total Debt/PBDIT	Times	3.34	2.03	2.42
Gross Current Assets (Days)	Days	226	135	132

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28-Sept, 2017	Cash Credit	Long Term	5.50	SMERA BB (Issuer not cooperating*)
	Term Loan	Long Term	10.80	SMERA BB (Issuer not cooperating*)
	Packing Credit/Packing Credit in Foreign Currency	Short Term	2.00	SMERA A4+ (Issuer not cooperating*)
25-June, 2016	Cash Credit	Long Term	5.50	SMERA BB/Stable (Assigned)
	Term Loan	Long Term	10.80	SMERA BB/Stable (Assigned)
	Packing Credit/Packing Credit in Foreign Currency	Short Term	2.00	SMERA A4+ (Assigned)

*The issuer did not co-operate; based on best available information

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50 (Reduced from Rs.5.50 Crs.)	SMERA BB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.80	SMERA BB/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.20	SMERA BB/ Stable (Assigned)
Packing Credit/Packing Credit in Foreign Currency	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+ (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.50	SMERA A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.30	SMERA A4+ (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Rating Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in Namita Palve, Rating Analyst, Tel: +91-22-6714 1129 Email: namita.palve@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.