

Press Release

SHAKTHI TECH MANUFACTURING INDIA PRIVATE LIMITED

February 25, 2019



Rating Downgraded and Assigned

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 45.30 Cr. |
| Long Term Rating | ACUITE D (Downgraded from ACUITE BB /Stable) |
| Short Term Rating | ACUITE D (Downgraded from ACUITE A4+) |

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE D**' (read as **ACUITE D**) from '**ACUITE BB**' (read as **ACUITE double B**) and short term rating to '**ACUITE D**' (read as **ACUITE D**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 22.80 crore bank facilities of SHAKTHI TECH MANUFACTURING INDIA PRIVATE LIMITED (STMIPL).

Further, Acuite has assigned the long-term rating of '**ACUITE D**' (read as **ACUITE D**) to the Rs. 22.50 crore bank facilities of STMIPL.

The rating downgrade is in the view of delays in interest and principal repayments of term loan for the period of ~15 days as confirmed by the banker. However, presently, the same has been regularised.

STMIPL was established as a proprietorship firm in 2006 and later in 2013, the constitution was changed into private limited company. The Directors are Mr. M. Angou and Mrs. Usha Angou. The company is engaged in manufacturing and exporting of machined casting and pump parts. The company currently has 4 units. The units are located in Coimbatore (Tamil Nadu). The company caters mainly to Indian railways, defence sector and exports to countries such as USA, Italy, Canada and UK.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of STMIPL to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

STMIPL was established as a proprietorship firm in 2006 and the constitution was changed into private limited company in 2013. Thus, the company has an operational track record of over a decade in industrial machinery sector. The Directors have an experience of over two decades in the same line of business. The long track record of operations and experience of management has helped the company develop healthy relationships with its customers and suppliers. Acuite believes that STMIPL will sustain its existing business profile on the back of established track record of operations and experienced management.

• Reputed clientele and healthy order book position

STMIPL caters to reputed clients including Indian railways, Defence, Midland Manufacturing and Mclellan Industries, among others and benefits from repeat orders. The company has orders in hand worth Rs. 54.00 crore to be executed by FY2020, which provides medium term revenue visibility.

Weaknesses

• Delays in debt servicing

The rating reflects delays in servicing of debt obligations. There have been instances of delay in servicing of interest and principal payments of term loans during the last three months. However, there are no overdues as on date.

• Average financial risk profile

The financial risk profile of the company stood average marked by net worth of Rs.9.14 crore as on 31 March, 2018 as against Rs. 7.80 crore as on 31 March, 2017. The gearing (debt-equity) stood at 3.23 times as on 31 March, 2018 as against 3.01 times as on 31 March, 2017. The total debt of Rs.29.56 crores as on 31 March, 2018 comprises of Rs.18.66 crore of long term debt, Rs.5.22 crore of unsecured loan and Rs.5.68 crore of working capital borrowings. Interest Coverage Ratio (ICR) stood at 3.13 times for FY2018 as against 2.98 times for FY2017. Further, Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 5.60 times as on 31 March, 2018 as against 5.90 times as on 31 March, 2017. Debt to EBITDA stood at 3.66 times in FY2018 as against 3.34 times in FY2017.

• Working capital intensive operations

STMIPL's working capital operations were intensive marked by Gross Current Assets (GCA) of 177 days for FY2018 as against 226 days in the previous year. The debtor days stood at 42 days for FY2018 as against 58 days for FY2017. Further, inventory stood at 84 days for FY2018 as against 93 days for FY2017.

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

The company's profitability margins are susceptible to fluctuation in raw material prices of steel and iron. The company procures raw materials from local suppliers. On an average, raw materials account for 50 percent of net sales. The revenue stood at Rs.47.51 crore in FY2018 as against Rs.35.75 crore in FY2017 and Rs.41.62 crore in FY2016. Further, the company has booked revenues of Rs.48.00 crore for the period April 2018 to January 2019. The business profile is highly dependent on successful bidding of projects. Acuite believes that the ability of the company to maintain its profitability margins and execute orders on time will be a key to ratingsensitivity.

Liquidity Position

STMIPL has weak liquidity position as there are delays of ~ 15 days in term loan principal repayments and overdue in packing credit account for less than 30 days due to stretched liquidity. However, the same has been regularized and there are no overdues as on date. The company's operations are working capital intensive as marked by high GCA days of 177 days for FY2018. This has led to higher reliance on working capital borrowings; the cash credit limit was fully utilized in the month of January 2019. The current ratio as on 31 March 2018 stood at 0.97 times. The company maintains unencumbered cash of Rs. 1.37 crore as on 31 March 2018.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 47.51 | 35.75 | 41.62 |
| EBITDA | Rs. Cr. | 8.00 | 6.86 | 6.70 |
| PAT | Rs. Cr. | 0.54 | 1.27 | 2.39 |
| EBITDA Margin | (%) | 16.85 | 19.18 | 16.11 |
| PAT Margin | (%) | 1.14 | 3.55 | 5.75 |
| ROCE | (%) | 12.67 | 18.07 | 48.23 |
| Total Debt/Tangible Net Worth | Times | 3.23 | 3.01 | 2.11 |
| PBDIT/Interest | Times | 3.13 | 2.98 | 4.98 |
| Total Debt/PBDIT | Times | 3.66 | 3.34 | 2.03 |
| Gross Current Assets (Days) | Days | 177 | 226 | 135 |

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

Not applicable

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 |
|--------------|---------------------------------|------------|------------------|--------------------------------|
| 28-Feb-2018 | Cash Credit | Long Term | 2.50 | ACUITE BB/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 10.80 | ACUITE BB/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 2.20 | ACUITE BB/ Stable (Assigned) |
| | Packing Credit | Short Term | 2.00 | ACUITE A4+ (Reaffirmed) |
| | Bill Discounting | Short Term | 2.00 | ACUITE A4+ (Assigned) |
| | Letter of Credit | Short Term | 22.50 | ACUITE A4+ (Assigned) |
| | Bank Guarantee | Short Term | 3.30 | ACUITE A4+ (Assigned) |
| 28-Sept-2017 | Cash Credit | Long Term | 5.50 | ACUITE BB (Indicative) |
| | Term Loan | Long Term | 10.80 | ACUITE BB (Indicative) |
| | Packing Credit | Short Term | 2.00 | ACUITE A4+ (Indicative) |
| 25-Jun-2016 | Cash Credit | Long Term | 5.50 | ACUITE BB / Stable (Assigned) |
| | Term Loan | Long Term | 10.80 | ACUITE BB / Stable (Assigned) |
| | Packing Credit | Short Term | 2.00 | ACUITE A4+ (Assigned) |

***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 D (Downgraded from ACUITE BB /Stable) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 10.80 | ACUITE D (Downgraded from ACUITE BB /Stable) |
| Packing Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE D (Downgraded from ACUITE A4+) |
| Bill Discounting | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE D (Downgraded from ACUITE A4+) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 2.20 | ACUITE D (Downgraded from ACUITE BB /Stable) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 22.50* | ACUITE D (Assigned) |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 3.30 | ACUITE D (Downgraded from ACUITE A4+) |

*Letter of Credit is sublimit of Term Loan to the extent of Rs. 20.82 crore

Contacts

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

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