

Press Release

Supreme Heatreaters Private Limited (SHPL)

23 October, 2017



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs.60.65 Cr. (Enhanced from 45.00 Cr)
Long Term Rating	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer annexure for details

Rating Rationale

SMERA has upgraded the long term rating on the Rs.60.65 crore bank facilities of Supreme Heatreaters Private Limited (SHPL) to '**SMERA BB+**' (**read as SMERA double B plus**) from '**SMERA BB**' (**read as SMERA double B**) and reaffirmed the short term rating of '**SMERA A4+**' (**read as SMERA A four plus**). The outlook is '**Stable**'.

The upgrade is in view of the improvement in profitability margins along with higher than expected revenues. SMERA believes that SHPL will maintain profitability margins along with growth in revenues over the medium term.

Supreme Heatreaters Private Limited (SHPL) is a Navi Mumbai-based company incorporated in 1987 by Mr. Ratan Praksah Chowdhri, Mr. Sanjay Chowdhri, Mr. Abhinav Chowdhri and Mrs. Lalitha Chowdhri. The company is engaged in the processing of steel which entails annealing of wire rods, pickling, drawing among others and manufacturing of steel coils and bars. The products find application in oil and gas exploration, nuclear energy, defence and petroleum industries. The company has two manufacturing units located at Rabale and Khopoli with installed capacity of 4000 tonnes and 2400 tonnes per annum respectively.

List of key rating drivers and their detailed description:

Strengths:

Established track record of operations and experienced management: SHPL was incorporated in 1987. The family run business was promoted by Mr. Sanjay Chowdhri, an engineer and other directors with more than three decades of experience in the said line of business.

Healthy business risk profile: The company has established relations with reputed clientele including Indian Space Research Organisation (ISRO), Defence Research and Development Organisation (DRDO), Hindustan Aeronautic Limited (HAL) and Bharat Forge which helps get repeat orders. Going ahead, SHPL will be focusing more on government entities for which it has received an approval from Department of Atomic Energy (DAE), Hindustan Aeronautic Limited (HAL), Research Centre Imarat Vigyanakancha (RCIV), Ordnance factory Ambajhari (OFA) for supply of superalloys.

The company has registered healthy revenue growth. The CAGR stood at around 15.71 per cent in FY2017 over FY2015. The revenue stood at Rs.120.40 crore in FY2017 as against Rs. 113.06 crore in

FY2016 and Rs. 78.81 crore in FY2015. The net profitability margins improved to 2.01 per cent in FY2017 from 0.74 per cent in FY2016. SHPL has moderate order book position of Rs. 44.93 crore to be executed in FY2017-18. The company expects more orders from government entities, going ahead.

SMERA believes that SHPL will maintain a healthy business risk profile along with growth in revenues and profitability margins on the back of healthy order book position and established market position.

Moderate financial risk profile: The financial risk profile of the company is moderate marked by net worth of Rs. 51.62 crore as on 31 March, 2017 (supported by unsecured loans to the tune of Rs. 39.76 crore considered as quasi equity) as against Rs. 49.39 crore a year earlier. The gearing stood low at 0.50 times as on 31 March, 2017 as against 0.47 times as on 31 March, 2016. The total debt of Rs.23.94 crore as on 31 March 2017 consists of long term debt of Rs. 2.95 crore and short term working capital funding of Rs. 20.99 crore. The Interest coverage ratio is moderate at 1.59 times for FY2016-17 as against 1.37 times for FY2015-16. The DSCR remained moderate at 1.33 times in FY2017 as against 1.32 times in FY2016. The net cash accruals of SHPL are healthy at Rs.4.38 crore in FY2017 as against Rs.2.38 crore in FY2016. The NCA/TD stood at 0.16 times as on 31 March, 2017 as against 0.10 times as on 31 March, 2016.

SMERA believes that going ahead, SHPL will maintain its financial risk profile over the medium term on the back of its healthy cash accruals and absence of any debt funded capital expenditure plan.

Weaknesses

Working capital intensive operations: SHPL's operations are working capital intensive marked by high GCA days of 328 in FY2017 as against 265 days in FY2016. This is on account of increase in debtor days to 119 in FY2017 as against 85 days in FY2016 due to higher revenues generated from government entities in FY2017. The inventory holding period is also high at 197 days in FY2017 as against 163 days in FY2016. The bank limit utilisation stood at 95 per cent for the last six months ended July, 2017. SMERA believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Susceptibility of profit margins to volatility in raw material prices: Raw material (mainly steel) comprises ~85 percent of cost of sales. Hence, the company is susceptible to adverse raw material price fluctuations in the absence of price escalation clause in its contracts.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of RDIL to arrive at the rating.

Applicable Criteria

- Manufacturing entity: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that SHPL will maintain a Stable outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to Positive in case the company registers more than expected growth in revenues while achieving improvement in its profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile on account of higher than expected debt funded working capital requirements.

About the Rated Entity: Key financials

In FY2016-17, the company reported profit after tax (PAT) of Rs.2.42 crore on operating income of Rs.120.40 crore as against net profit of Rs.0.84 crore on operating income of Rs.113.06 crore in the previous year. The tangible net worth stood at Rs. 54.46 crore as on 31 March, 2017 as against Rs. 49.39 crore a year earlier.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12-July, 2016	Cash Credit	Long Term	21.00*	SMERA BB/ Stable (Assigned)
	Term loan	Long Term	1.65	SMERA BB/ Stable (Assigned)
	Term loan	Long Term	3.00	SMERA BB/ Stable (Assigned)
	Bank Guarantee	Short Term	0.10	SMERA A4+ (Assigned)
	Letter Of credit	Short Term	19.25	SMERA A4+ (Assigned)

*includes EPC and FBP as a sublimit of CC to the extent of Rs. 2.00 crore each.

*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	N.A	N.A	N.A	25.00* (enhanced from Rs. 21.00 cr)	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term loan	N.A	N.A	N.A	1.65	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term loan	N.A	N.A	N.A	3.00	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Bank Guarantee	N.A	N.A	N.A	1.00 (enhanced from Rs. 0.10 Cr)	SMERA A4+ (Reaffirmed)
Letter Of credit	N.A	N.A	N.A	30.00# (enhanced from Rs. 19.25 Cr)	SMERA A4+ (Reaffirmed)

*includes EPC and FBP as a sublimit of CC to the extent of Rs.2.00 crores each

#includes Buyer's credit as a sublimit of LC to the extent of Rs. 10.00 crores

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ABOUT SMERA

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