

Press Release

Sharp Tanks & Structurals Private Limited

28 December, 2017



Rating Upgraded

Total Bank Facilities Rated	50.00 Cr. (Enhanced from Rs. 46.00 Cr.)
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Short Term Rating	SMERA A3 (Upgraded from SMERA A4+)

SMERA has upgraded the long term rating on the Rs.50.00 crore bank facilities of Sharp Tanks & Structurals Private Limited (STSPL) to '**SMERA BBB-**' (**read as SMERA triple B minus**) from '**SMERA BB+**' (**read as SMERA double B plus**) and short term rating to '**SMERA A3**' (**read as SMERA A three**) from '**SMERA A4+**' (**SMERA A four plus**). The outlook is '**Stable**'.

The upgrade is in view of the improvement in the scale of operations and profitability margins of the company. SMERA believes that going ahead the company will sustain growth in revenue along with profitability margins on the back of its healthy order book.

STSPL was incorporated in 1987 by Mr. VV Nair (Managing Director), and Mr. Balagopal (CEO). The company offers services in the field of construction of oil storage tanks, ammonia storage tanks, LPG storage spheres, gas holders among others. The manufacturing facility is located at Tarapur, Maharashtra.

Strengths

Established track of operations, experienced management

STSPL was incorporated in 1987. The Managing Director, Mr. Nair, a mechanical engineer by qualification possesses more than three decades of experience in the construction industry. Further, Mr. Balagopal, CEO, has more than a decade's experience in civil construction and holds relevant qualifications in engineering and business management from reputed institutions.

Moderate financial risk profile

The financial risk profile has remained moderate, marked by healthy net worth of Rs. 30.23 crore as on 31 March, 2017 as against Rs. 27.04 crore as on 31 March, 2016. The gearing stood at 0.60 times as on 31 March, 2017 as against 0.39 times as on 31 March, 2016. The total debt of Rs.18.00 crore, outstanding as on 31 March, 2017, comprises of Rs. 0.24 crore as vehicle loan and Rs. 17.76 crore as working capital borrowing from the bank. The interest coverage ratio (ICR) stood at 2.79 times in FY2017 as against 2.25 times in FY2016. The Debt Service Coverage Ratio (DSCR) improved to 2.57 times in FY2017 as against 1.90 times in FY2016.

The net cash accruals stood at Rs 3.63 crore in FY2017 as against Rs. 2.49 crore in FY2016. The NCA/TD stood at 0.25 times in FY2017 as against 0.23 times in FY2016.

Healthy order book position with reputed customer base

STSPL has a healthy order book position of Rs. 162.00 crore as on November 2017, to be executed by

March 2018. The company has orders from reputed companies including Reliance Petroleum Limited, Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited.

Improvement in profitability margins

The EBITDA margin stood at 11.08 percent in FY2017 as against 11.80 percent in FY2016 while the absolute EBITDA increased to Rs. 7.58 crore in FY2017 from Rs. 5.62 crore in FY2016.

The PAT margin improved to 4.45 percent in FY2017 from 3.96 percent in FY2016.

Weaknesses

Working capital intensive operations

The operations are working capital intensive, marked by high Gross Current Asset (GCA) days of 311 in FY2017 and 337 days in FY2016. The receivable days increased to 123 in FY2017 as against 59 days in FY2016 as majority of the revenue was booked in the month of March 2017. However, all the portion of debtors' outstanding as on March 2017 has been received as on November 2017. The inventory holding period stood at 158 days in FY2017 compared to 259 days in FY2016. The creditor days stood at 131 days in FY2017 and 129 days in FY2016. The bank limit utilisation stood at ~87 percent for the last six months ended October, 2017.

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

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infrastructure.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>

Outlook - Stable

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

About The rated entity - key financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	68.42	47.63	31.41
EBITDA	Rs. Cr.	7.58	5.62	3.47
PAT	Rs. Cr.	3.04	1.89	0.93
EBITDA Margin	(%)	11.08	11.80	11.05
PAT Margin	(%)	4.45	3.96	2.95
ROCE	(%)	17.37	15.58	10.02
Total Debt/Tangible Net Worth	Times	0.60	0.39	0.44
PBDIT/Interest	Times	2.79	2.25	2.24
Total Debt/PBDIT	Times	2.24	1.70	2.64
Gross Current Assets (Days)	Days	311	337	453

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
26-Oct, 2016	Cash Credit	Long Term	10.74	SMERA BB+ / Stable (Assigned)
	Bank Guarantee	Long Term	27.49	SMERA BB+ / Stable (Assigned)
	Letter of Credit	Short Term	7.74	SMERA A4+ (Assigned)
	Proposed Bank facility	Short Term	0.03	SMERA A4+ (Assigned)

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	NA	NA	NA	13.50 (Enhanced from Rs. 10.74 Cr.)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Bank Guarantee	NA	NA	NA	31.50 (Enhanced from Rs. 27.49 Cr.)	SMERA A3 (Upgraded from SMERA A4+)
Letter of Credit	NA	NA	NA	5.00 (Revised from Rs. 7.74 Cr.)	SMERA A3 (Upgraded from SMERA A4+)

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ABOUT SMERA

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