

Press Release

Sharp Tanks & Structural Private Limited

November 30, 2018



Rating Upgraded and Assigned

Total Bank Facilities Rated*	70.00 Cr. (Enhanced from Rs. 50.00 crore)
Long Term Rating	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

*Refer annexure for details

Rating Rationale

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

Further, Acuite has assigned short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 20.00 crore bank facilities of STSPL.

The upgrade revision is in view of continuous improvement in profitability and operating income during the period FY2016 to FY2018 under the study, which is expected to be sustained over the near to medium term. Acuite expects that STSPL will be able to exhibit improved operating metrics on account of healthy unexecuted order book position amounting to Rs.171.94 crore as on October 2018.

STSPL, incorporated in 1987 by Mr. VV Nair (Managing Director) and Mr. MM Menon (Director). The company caters to Oil Refineries, Fertilizers, Petrochemicals, Power and Steel Industries by offering services in the field of construction of Oil Storage Tanks, Ammonia Storage Tanks, LPG Storage Spheres, Gas Holders, Process Piping, Process Equipment and Structural among others.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of STSPL to arrive at the rating.

Key Rating Drivers

Strengths:

Established track of operations with experienced management

STSPL was incorporated in 1987. The Managing Director 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.

Healthy order book position

STSPL has a healthy order book position of Rs.171.94 crore as on October 2018 which gives short term revenue visibility. The orders in-hand includes order from reputed companies such as Reliance Petroleum Limited, IOCL, Bharat Petroleum Corporation Limited to name a few.

Continuous improvement in operating income with moderate profitability

The company has shown Y-O-Y growth in revenues during the period FY2016 to FY2018 under the study. The revenue stood at Rs.99.40 crore in FY2018 as against Rs.68.82 crore in FY2017 and Rs.48.41 crore in FY2016. Further, the company has booked revenue of Rs.~47.47 crore for the period April to October 2018.

The profitability margins of STSPL have shown uneven trend during the period FY2016 to FY2018 under the study. The EBITDA margin of the company stood at 9.03 percent in FY2018 as against 10.46 percent in FY2017. The operating margins have declined on account of significant increase in employee cost in FY2018 over FY2017.

The net profitability margins remained moderate at 3.36 percent in FY2018 as against 4.42 percent in FY2017 and 3.90 percent in FY2016. The net profitability margins have declined on account of increase in utilisation of working capital facilities resulting in increased finance cost in FY2018 over FY2017.

Moderate financial risk profile

The financial risk profile of STSPL have remained moderate marked by healthy net worth of Rs.34.55 crore as on 31 March, 2018 (PY: Rs.5.54 crore) which includes unsecured loan to the tune of Rs.6.19 crore (PY: Rs.5.54 crore) considered as quasi equity. The gearing (debt/equity) stood at 0.37 times as on 31 March, 2018 as against 0.59 times as on 31 March, 2017. The total debt of Rs.12.69 crore outstanding as on 31 March, 2018 comprises vehicle loan from bank of Rs.0.02 crore and Rs.12.67 crore as a working capital borrowing from the bank.

The moderate profitability coupled with low gearing levels have resulted in healthy debt protection metrics with interest coverage of 2.69 times and NCA/TD of 0.34 times for FY2018. TOL/TNW ratio remained moderate at around 1.00 time as on March 31, 2018 on account of high trade payables and DSCR stood at 2.20 times in FY2018 as against 2.26 times in FY2017. In FY2018, Net cash accruals remained moderate at Rs.4.27 crore against debt repayment obligation of Rs.0.02 crore.

Acuite believes that the financial risk profile of STSPL will remain comfortable over the medium term on account of healthy generation of net cash accruals.

Weaknesses:**Working capital intensity**

The working capital cycle of STSPL has improved yet remains intensive marked by Gross Current Assets (GCA) of 195 days in FY2018 as against 303 days in FY2017. The improvement in GCA days is on account of better realisation from the receivables and inventory in FY2018 over FY2017. The debtor days stood at 80 days in FY2018 (PY: 123 days) and inventory holding period stood at 108 days in FY2018 (PY: 156 days). The average bank limit utilisation stood at 81.66 percent for the last six months ended October, 2018.

Acuite believes that the operations of STSPL will remain working capital intensive being into capital goods industry where the operating cycle ranges between 180 to 365 days.

Outlook: Stable

Acuite believes that STSPL will maintain a 'Stable' business risk profile 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 the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

About the rated entity- Key financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	99.40	68.82	48.41
EBITDA	Rs. Cr.	8.98	7.20	5.76
PAT	Rs. Cr.	3.34	3.04	1.89
EBITDA Margin	(%)	9.03	10.46	11.90
PAT Margin	(%)	3.36	4.42	3.90
ROCE	(%)	18.11	17.24	29.53
Total Debt/Tangible Net Worth	Times	0.37	0.59	0.38
PBDIT/Interest	Times	2.69	2.79	2.25
Total Debt/PBDIT	Times	1.32	2.24	1.69
Gross Current Assets (Days)	Days	195	303	325

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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-Dec-2017	Cash Credit	Long Term	13.50 (Enhanced from Rs. 10.74 Cr.)	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Bank Guarantee	Long Term	31.50 (Enhanced from Rs. 27.49 Cr.)	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	5.00 (Revised from Rs. 7.74 Cr.)	ACUITE A3 (Upgraded from ACUITE A4+)
26-Oct-2016	Cash Credit	Long Term	10.74	ACUITE BB+/Stable (Assigned)
	Bank Guarantee	Long Term	27.49	ACUITE BB+/Stable (Assigned)

	Letter of Credit	Short Term	7.74	ACUITE A4+ (Assigned)
	Proposed Bank facility	Short Term	0.03	ACUITE 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/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE A3+ (Upgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00*	ACUITE A3+ (Assigned)

*Includes sublimit of Rs. 1.50 crore as Cash Credit and Rs. 2.00 crore as Letter Credit.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Namita Palve Analyst - Rating Operations Tel: 02249294034 namita.palve@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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