

Press Release

Sharp Tanks & Structurals Private Limited

D-U-N-S® Number: 91-670-4562

December 11, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 70.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 70.00 crore bank facilities of Sharp Tanks and Structurals Private Limited (STPL). The outlook is '**Stable**'.

STPL, 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 Structurals among others. The company caters to reputed clients like IOCL, HPCL, BPCL and RIL to name few.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

STPL has establish presence in providing services in the field of construction of Oil Storage Tanks, Ammonia Storage Tanks, LPG Storage Spheres, Gas Holders, Process Piping, Process Equipment and Structurals among others since 1987. The Managing Director Mr. VV Nair 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. The company is well supported by second line of management. The extensive experience and establish operational track of operations in industry has helped the company in getting recurring orders from its customers and extended credit from suppliers. The same can be reflected in improving revenues to Rs. 110.32 crores in FY2019 as against Rs.99.40 crores in FY2018. The company has achieved revenue of Rs. 66.44 crores till November 2019. Acuité believes the company will continue to benefit from its established presence in the industry and the promoter's demonstrated ability to manage and scale up the business operations across various cycles.

• Moderate financial risk profile

The financial risk profile of STSPL have remained moderate marked by net worth of Rs. 34.52 crore as on 31 March, 2019 as against Rs. 32.87 crore as on 31 March 2018. The net worth includes unsecured loan to the tune of Rs. 4.51 crore (PY: Rs. 4.51 crore) considered as quasi equity. The gearing (debt/equity) stood at 0.40 times as on 31 March, 2019 as against 0.28 times as on 31 March, 2018. The total debt of Rs. 22.80 crore outstanding as on 31 March, 2019 comprises vehicle loan from bank of Rs.0.10 crore and Rs. 22.70 crore as a working capital (Including LC) borrowing from the bank. The moderate profitability coupled with low gearing levels have resulted in moderate debt protection metrics with interest coverage of 1.84 times and NCA/TD of 0.18 times for FY2019. TOL/TNW ratio remained moderate at around 1.19 time as on March 31, 2019 on account of high trade payables and DSCR stood at 1.69 times in FY2019 as against 2.07 times in FY2018. In FY2019, Net cash accruals have declined to Rs. 2.50 crore (PY: Rs.4.27) against debt repayment obligation of Rs.0.02 crore. Acuité believes that the financial risk profile of STPL will remain moderate over the medium term on account of healthy order book and moderate net cash accruals.

Weaknesses

• Decline in margins

Despite increase in revenues Y-o-Y, the operating and net profit margins have seen decline in last three years from 10.46 percent and 4.42 percent in FY2017 to 5.18 percent and 1.50 percent in FY2019. The decline in margins is due to change in scope of work and bad debts worth Rs.3.00 crores written off during the FY2019. The decline in margins has directly impacted financial risk profile and liquidity to certain extent. However, the same is likely to improve going ahead due to adding of new high margin orders and widening in scope of work.

• Working capital intensive nature of operations

The working capital cycle of STPL has remains intensive marked by Gross Current Assets (GCA) of 194 days in FY2019 as against 195 days in FY2018. The GCA days is marked by better realisation from the receivables and inventory in FY2019 over FY2018. The debtor days stood at 67 days in FY2019 (PY: 80 days) and inventory holding period stood at 96 days in FY2018 (PY: 108 days). The average bank limit utilisation stood at 75.00 percent for the last six months ended October, 2019. Acuite believes that the operations of STPL will remain working capital intensive being into capital goods industry where the operating cycle ranges between 180 to 365 days.

Liquidity Position: Adequate

STPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.50 to Rs.4.25 crore during the last three years through 2017- 19, while its maturing debt obligations were in the range of Rs.0.02 -0.22 crore over the same period. The cash accruals of the company are estimated to remain around Rs.2.50-4.50 crore during 2020-22, while its repayment obligations are expected to be Rs.0.02-0.25 crore over the same period. The company's operations are moderate working capital as marked by gross current asset (GCA) days of 194 in FY2019. The cash credit limit of remains utilized at 75.00 percent for the last six months period ended October, 2019. The company maintains unencumbered cash and bank balances of Rs. 1.57 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.47 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of expected healthy order book position and improving operations over the medium term.

Rating Sensitivities

- Improving revenues
- Reputed Clientele
- Decline in Margins and Net cash accruals
- Moderately stretched working capital cycle

Material Covenants

None

Outlook: Stable

Acuite believes that STPL 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	110.32	99.40
PAT	Rs. Cr.	1.65	3.34
PAT Margin	(%)	1.50	3.36
Total Debt/Tangible Net Worth	Times	0.40	0.28
PBDIT/Interest	Times	1.84	2.69

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

Not Applicable

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
30-Nov-2018	Cash Credit	Long Term	13.50	ACUITE BBB/ Stable (Upgraded)
	Bank Guarantee	Short Term	31.50	ACUITE A3+ (Upgraded)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Upgraded)
	Bank Guarantee	Short Term	20.00*	ACUITE A3+ (Upgraded)
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	Short 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 A4+ (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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	31.50#	ACUITE A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00*	ACUITE A3+ (Reaffirmed)

#Fully interchangeability between LC and BG

*Sublimit of CC and LC to the extent of Rs. 1.50 crore and Rs. 2.00 crs.

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About Acuité Ratings & Research:

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