

Press Release

Sharp Tanks & Structurals Private Limited

December 23, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite 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 & Structurals Private Limited (STPL). The outlook is '**Stable**'.

STPL, incorporated in 1987 by Mr. VV Nair (Managing Director) and Mr. Viji Chandran Nair (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. The manufacturing facility for structural work is located at Tarapur MIDC Industrial Area.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of STPL to arrive at the ratings.

Key Rating Drivers

Strengths

• Established track record of operations, experienced management and healthy order book position

STPL has established 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 and Mr. Viji Chandran Nair possess over two decades of experience in the industrial 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 the 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. 117.24 crores in FY2020 as against Rs. 110.32 crores in FY2019 and Rs.99.40 crores in FY2018. The company has achieved revenue of Rs. 48.85 crores till October 2020. The company has healthy outstanding order book of Rs.240.00 crores as on November 2020, providing visibility over near to medium term. Acuite 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 STPL has remained healthy marked by net worth of Rs. 34.92 crore as on 31 March, 2020 as against Rs.34.52 crores as on 31 March, 2019. The gearing (debt/equity) stood at 0.30 times as on 31 March, 2020 as against 0.40 times as on 31 March, 2019. The total debt of Rs. 10.58 crore outstanding as on 31 March, 2020 comprises vehicle loan from bank of Rs.0.12 crore and Rs.10.32 crore as a working capital borrowing from the bank. The moderate profitability coupled with low gearing levels have resulted in comfortable debt protection metrics with interest

coverage of 3.35 times as on March 31, 2020 as against 1.84 times as on March 31, 2019. NCA/TD stood at 0.57 times as on March 31, 2020 as against 0.18 times as on March 31, 2019. TOL/TNW ratio remained moderate at 1.40 times as on March 31, 2020 as against 1.19 time as on March 31, 2019 on account of high trade payables. DSCR stood at 2.79 times as on March 31, 2020 as against 1.69 times as on March 31, 2019. In FY2020, Net cash accruals have declined stood at Rs. 6.08 crore (PY: Rs.2.50) against debt repayment obligation of Rs.0.04 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

• Working capital intensive nature of operation

The working capital cycle of STPL has remained intensive marked by Gross Current Assets (GCA) of 190 days in FY2020 and 194 days in FY2019. The GCA days is marked by moderate elongation in receivables and slight improvement in inventory holding in FY2020 over FY2019. The debtor days stood at 75 days in FY2020 (PY: 67 days) and inventory holding period stood at 84 days in FY2020 (PY: 99 days). The average bank limit utilisation stood at 60-65 percent for the last six months ended October, 2020. Acuité believes that the operations of STPL will remain working capital intensive over near to medium term.

• Highly competitive and fragmented industry marked by tender based nature of operations

The company operates in construction of various types industrial structures which includes storage tanks, process equipment, piping solutions and allied civil engineering work. Industry is marked by intense competition from several mid to big sized players. The company faces intense competition from the other well established players in the sector. Further, margins remain affected by the risk to become more pronounced as tendering is based on a minimum amount of bidding of contracts. The same can be seen through uneven margins during the last three years ending FY2020. The revenue of STPL depends on the number of successful bids and the availability of fresh tenders for bidding from the private players. The industry has witness slowdown due to pandemic and is expected to have short term impact for the revival of operations to normalcy. However, STPL is safeguarded by long standing relationship with reputed players ensuring a regular flow of order and establish a position in the steel structure segment, which ensures steady growth in the revenues.

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.6.08 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.02 -0.04 crore over the same period. The cash accruals of the company are estimated to remain around Rs.2.50-5.50 crore during 2021-23, while its repayment obligations are expected to be Rs.0.02-0.10 crore over the same period. The cash credit limit of remains utilized at 60-65 percent for the last six months period ended October, 2020. The company maintains unencumbered cash and bank balances of Rs. 0.90 crore as on March 31, 2020. The current ratio of the company stood moderate at 1.30 times as on March 31, 2020.

Rating Sensitivities

- Improving revenues and margins
- Moderately stretched working capital cycle
- Detrition in financial risk profile and liquidity

Outlook: Stable

Acuité 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 | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 117.24 | 110.32 |
| PAT | Rs. Cr. | 5.21 | 1.65 |
| PAT Margin | (%) | 4.44 | 1.50 |
| Total Debt/Tangible Net Worth | Times | 0.30 | 0.40 |
| PBDIT/Interest | Times | 3.35 | 1.84 |

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

None

Any other information

Not Any

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument /Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|--------------------------------|------------|------------------|---|
| 13-Dec-2019 | Bank Guarantee | Short Term | 31.50# | ACUITE A3+ (Reaffirmed) |
| | Cash Credit | Long Term | 13.50 | ACUITE BBB/Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A3+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 20.00* | ACUITE A3+ (Reaffirmed) |
| 30-Nov-2018 | Cash Credit | Long Term | 13.50 | ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable) |
| | Bank Guarantee | Short Term | 31.50 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Bank Guarantee | Short Term | 20.00 | ACUITE A3+ (Assigned) |
| 28-Dec-2017 | Cash Credit | Long Term | 13.50 | ACUITE BBB- / Stable (Upgraded from ACUITE BB+ / Stable) |
| | Bank Guarantee | Short Term | 31.50 | ACUITE A3 (Upgraded from ACUITE A4+) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A3 (Upgraded from ACUITE A4+) |

#Fully interchangeability between LC and BG

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

***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) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 20.00^ | ACUITE A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | 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 crore.

^Sublimit of CC and LC of Rs.1.50 crore.

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,476 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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