

Press Release

Sharp Tanks & Structurals Private Limited

March 02, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.35	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	13.50	ACUITE BBB+ Stable Upgraded	-
Bank Loan Ratings	56.50	-	ACUITE A2 Upgraded
Total Outstanding Quantum (Rs. Cr)	71.35	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long term rating to 'ACUITE BBB+' (read as ACUITE triple B plus) from ACUITE BBB (read as ACUITE triple B) on the Rs.13.50 Cr. long term bank facilities and the short term rating to 'ACUITE A2' (read as A two) from ACUITE A3+ (read as ACUITE A3 plus) on the Rs. 56.50 Cr. short term bank facilities of Sharp Tanks & Structurals Private Limited (STSPL). Further, Acuite has assigned a long term rating of 'ACUITE BBB+' (read as ACUITE triple B plus) on the Rs. 1.35 Cr. long term bank facilities of Sharp Tanks & Structurals Private Limited (STSPL). The outlook is '**Stable**'.

Rationale for Rating Upgrade

The rating upgrade takes into account improvement in STSPL's operating performance. STSPL's revenue improved to Rs. 127.31 Cr. in FY2021 against Rs. 117.24 Cr. in FY2020. Further, for 7M FY2022 the company reported revenue of Rs. 73.26 Cr. The operating profitability has been stable in the range of 8.00-10.84 %. The rating also draws comfort from the established operational track record and healthy financial risk profile. **Further, STSPL has a healthy order book of around Rs.350 crores in its pipeline for FY23.** Rating is constrained on account of working capital intensive nature of operations and presence in a highly competitive operating environment.

Acuite believes any further elongation working capital cycle will remain a key rating sensitivity factor.

About the Company

STSPL is a Mumbai based company incorporated in 1987 by Mr. VV Nair (Managing Director) and Mr. Viji Chandran Nair (Director). STSPL operates in the construction 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. 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.

In October-21, Zetwerk Manufacturing Business Private Limited (ZMBPL) has acquired 75 percent stake in STSPL from the existing shareholders. ZMBPL is a Bengaluru based start-up majorly involved into large-turnkey projects (primarily through subcontracting) and contract manufacturing in multiple segments (through in-house and vendors) such as consumer goods, apparels, engineering components etc. ZMBPL has successfully raised equity to the tune USD 270 million during last 15 months. Going forward, representative from ZMBPL will manage the day to day operations of STSPL and their stake will be gradually increased to 100 percent and STSPL will be a subsidiary of ZMBPL.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations, and experienced management

STSPL 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 Structural since 1987. Its operations were previously managed by the founders. They were also supported by a second line of management. In October 2021, ZMBPL has acquired 75 percent stake in the company from the existing shareholders. Going forward the day to day STSPL's operations will be managed by representative from ZMBPL. ZMBPL is a Bengaluru based startup and is majorly involved into large-turnkey projects (primarily through subcontracting) and contract manufacturing in multiple segments (through in-house and vendors) such as consumer goods, apparels, engineering components etc. Further, STSPL's established operational track 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 its customer profile which includes names like **BPCL, HPCL, IOCL** etc.

Acuité believes the company will continue to benefit from its established presence in the industry and thus manage to and scale up the business operations across various cycles.

Improving Operating performance

Operating income of the company has been growing YoY to Rs. 127.31 Cr. in FY2021 as against Rs. 117.24 Cr. in FY2020 and Rs.110.32 Cr. in FY2019. The revenue of the company is growing at 17 percent CAGR since 2017. Further for 7M FY2022 the company reported revenue of Rs.73.26. Cr. The operating margins have improved to 10.84 percent in FY2021 as against 8.86 percent in FY2020. The profitability margins have also witnessed improvement and stood at 6.00 percent in FY2021 against 4.44 percent in FY2020. The improvement is visible due to execution of high ticket value orders. The company has healthy outstanding order book in hand of Rs. 350 Cr. out of which Rs.50 crore is to be executed within FY22 & balance in FY23 providing a stable revenue visibility over the medium term.

Healthy Financial risk profile albeit modest Networth

The financial risk profile of STSPL has remained healthy marked by low gearing and comfortable coverage indicators. However, net worth stood modest at Rs. 42.56 crore as on 31 March, 2021 as against Rs.34.92 crores as on 31 March, 2020. The gearing stood at 0.37 times as on 31 March, 2021 as against 0.30 times as on 31 March, 2020. The total debt of Rs. 15.11 crore outstanding as on 31 March, 2021 comprises of vehicle loan of Rs.0.025 crore and Rs.15.08 crore as a working capital borrowing from the bank. The stable profitability coupled with low gearing levels have resulted in comfortable debt protection metrics with interest coverage of 5.32 times in FY2021 as against 3.35 times in FY2020 and DSCR at 4.01 times as on March 31, 2021 as against 2.79 times as on March 31,2020. NCA/TD as on March 31, 2021 stood at 0.56 times more or less at similar levels of FY2020. TOL/TNW ratio remained moderate at 1.54 times as on March 31, 2021 as against 1.40 times as on March 31, 2020 on account of relatively high trade payables. In FY2021, Net cash accruals have improved and stood at Rs. 8.76 crore (PY: Rs.6.08)against no major debt repayment obligations. Going forward its gearing

is expected to be in the range of 0.37-0.40 times over the medium term and ICR in the range of 5.32-5.52 times.

Acuité believes the company's financial risk profile to remain stable over the medium term on account of stable operating performance.

Weaknesses

Working capital intensive nature of operations

The working capital cycle of STSPL has remained intensive marked by Gross Current Assets (GCA) of 244 days in FY2021 and 190 days in FY2020. The stretched GCA days is marked by elongation in receivables and in inventory holding in FY2021 due to certain PO terms of the contract. The company is liable for a performance guarantee which extends ahead to around 12 months or 24 months depending on the project from the date of completion of the actual project. Even though project execution gets completed STSPL is allowed to raise only 80-90 percent of the total billing amount, and balance after the performance guarantee period is completed. This primarily creates an elongation of the inventory and the debtor days as well. The debtor days stood at 92 days in FY2021 (PY: 75 days) and inventory holding period stood at 115 days in FY2021 (PY: 84 days). The average bank limit utilisation stood at around 91 percent for the last six months ended December, 2021.

Acuité expects any further elongation in STSPL's working capital cycle will be a key rating sensitivity factor.

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 FY2021. The revenue of STSPL depends on the number of successful bids and the availability of fresh tenders for bidding from the private players. Hence timely execution of received orders remains a key factor. The industry has witnessed slowdown due to pandemic and is expected to have short term impact for the revival of operations to normalcy. However, STSPL 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.

Rating Sensitivities

- Timely execution & completion of the projects
- Further elongation in the receivables and working capital cycle

Material covenants

None

Liquidity Position: Strong

STSPL has strong liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals in the range of Rs.2.50 to Rs.8.76 crore during the last three years through 2019-21 against repayment obligations in the range Rs. 0.02 Cr and 0.60 Cr. The cash accruals of the company are estimated to remain around Rs.10-20 crore during 2022-23, while its repayment obligations are expected to be Rs.0.85-1 crore over the same period due to addition of debt during FY2021. The working capital cycle of STSPL has remained intensive marked by Gross Current Assets (GCA) of 244 days in FY2021 and 190 days in FY2020. The average bank limit utilisation stood at around 91 percent for the last six months ended December, 2021. The company maintains unencumbered cash and bank balances of Rs. 0.24 crore as on March 31, 2021. The current ratio of the company stood adequate at around 1.36 times as on March 31, 2021.

Outlook: Stable

Acuité expects STSPL to maintain a 'Stable' Outlook on account of established track record of

operations, improved operating performance and healthy financial risk profile. The Outlook may be revised to Positive if the company achieves higher than expected improvement in operational performance on back of faster order execution. Conversely, the outlook may be revised to 'Negative' in case there are any significant delays or further elongation in the working capital cycle impacting STSPL's liquidity profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	127.31	117.24
PAT	Rs. Cr.	7.63	5.21
PAT Margin	(%)	6.00	4.44
Total Debt/Tangible Net Worth	Times	0.37	0.30
PBDIT/Interest	Times	5.32	3.35

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Dec 2020	Cash Credit	Long Term	13.50	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	31.50	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Reaffirmed)
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	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)

2018	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+)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE A2 Upgraded (from ACUITE A3+)
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2 Upgraded (from ACUITE A3+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 Upgraded (from ACUITE A3+)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	31-01-2023	1.35	ACUITE BBB+ Stable Assigned (from ACUITE BBB)

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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 8,850 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 Kanjurmarg, Mumbai.

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