

Press Release

Sharp Tanks & Structurals Private Limited

July 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	14.85	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	40.00	-	ACUITE A2 Assigned
Bank Loan Ratings	56.50	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	121.35	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as ACUITE triple B plus) on the Rs.14.85 crore long term bank facilities and the short term rating of '**ACUITE A2**' (read as ACUITE A two) on the Rs. 56.50 crore short term bank facilities of Sharp Tanks & Structurals Private Limited (STSPL). The outlook is '**Stable**'.

Further, Acuite has assigned the long term rating of 'ACUITE BBB+' (read as ACUITE triple B plus) on the Rs.10.00 crore long term bank facilities and the short term rating of 'ACUITE A2' (read as ACUITE A two) on the Rs. 40.00 crore short term bank facilities of Sharp Tanks & Structurals Private Limited (STSPL). The outlook is 'Stable'

Rationale for Rating Reaffirmation

The reaffirmation takes into account significant growth in revenues, comfortable financial risk profile and adequate liquidity of STSPL. The company reported a growth of around 63 percent in its topline with revenues of Rs. 207 Cr. in FY2022 (Prov.) against Rs. 127 Cr. in FY2021. Further, the rating also takes into account the long track record of operations of STSPL and its recent acquisition by a Bengaluru based end-to-end manufacturing, and supply chain solutions start-up, **Zetwerk Manufacturing Business Private Limited (ZMBPL)**. ZMBPL has successfully raised equity to the tune USD 270 million during FY2021 and is backed by leading Private equity firms' funds such as Sequoia Capital, Kae Capital Fund; Kalysta Capital Fund, D1 Capital Partners etc. STSPL is expected to benefit from the acquisition with more competent and professional management in addition to the monetary support extended by ZMBPL to the business in the form of unsecured lending. Further, rating also considers STSPL's healthy order book of around Rs.260 crores in its pipeline for FY23. The rating is however offset by significant deterioration in the operating profit of the company marked by increased manufacturing costs and surged prices of raw materials which the company has not been

able to pass on due to its tender based nature of business.

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 STPL to arrive at the rating

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 Structurals 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.

Improved Working Capital operations

The working capital operations of STSPL have improved during FY2022(Prov.) marked by GCA days of 155 against 244 in FY2021. The improvement is primarily driven by quicker realisations and improved inventory days. The debtor days stood at 61 during FY2022(Prov.) against 92 in FY2021. The debtor days during FY2021 were high due to certain disputes pertaining to earlier year (2013-14) which resulted in non realisation of payments. However, in order to end the said dispute, STSPL has written off the amount to the tune of Rs. 5.24 Cr. during FY2022 and charged to the bad debts account which has affected STSPL's profitability during FY2022. However, the same being a one time scenario, Acuite has considered the same as exceptional expenses while arriving at the rating. Further, the new company has re-classified certain accounting groups of STSPL which has reduced the inventory days to 13 in FY2022(Prov.) against 115 days in FY2021. Earlier STSPL would account its WIP under Inventories, however with new accounting classification, the same has been re-classified as **Unbilled Revenues** under the Other Current Assets. The creditor days stood at 77 for FY2022(Prov.) against 161 in FY2021. The average working capital limitis remained utilised at

around 75-80 percent for the last six months ended May 2022.

Comfortable Financial risk profile albeit modest Network

The financial risk profile of STSPL has remained comfortable marked by low gearing and comfortable coverage indicators. However, net worth stood modest at Rs. 37.77 Cr. as on 31 March, 2022 as against Rs.42.56 Cr. as on 31 March, 2021. The Net worth during FY2022 (Prov.) has reduced as during the acquisition process 10 percent shares were bought back by the earlier shareholders and buy back premium has been charged to the General Reserves of STSPL. The gearing stood comfortable at 0.53 times as on 31 March, 2022(Prov.) as against 0.37 times as on 31 March, 2021. The company does not have any long term debt in its balance sheet apart from unsecured lendings to the tune of Rs. 2.60 Cr. as on March 31, 2022 (Prov.). The interest coverage and DSCR stood at 1.67 times and 1.63 times in FY2022 (Prov.). Going forward the gearing is expected to be in the range of 0.49-0.50 times over the medium term and ICR in the range of 4.37 times.

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

Weaknesses

Deteriorated Operating profit

STSPL has reported deteriorated operating and profitability margins during FY2022(Prov.). The company had certain receivables to the tune of Rs. 5.24 Cr. pertaining to earlier years in its books. In FY2022(Prov.), the same were written off and charged to its bad debts accounts. This has significantly affected the profitability of STSPL. The PAT for FY2022 (Prov.) stood at Rs. 0.86 Cr. against Rs. 7.63 Cr in FY2021. However, bad debts being an exceptional and a one time scenario, and if the written off amount is excluded, the operating profit still stood at around Rs. 11.07 Cr. in FY2022 (Prov.) against Rs. 13.80 Cr in FY2021. The operating profits have also been partially affected by increase in the other manufacturing costs and increased raw material prices which STSPL has a limited ability to pass on to its customers as it has tender based nature of business and the prices are fixed during the tender itself. Further, the agreements currently, do not have price escalation clause affecting STSPL's operating performance.

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

- Sustainable growth in revenues thereby maintaining stable operating margins
- Timely execution & completion of the projects

Material covenants

None

Liquidity Position: Adequate

STSPL has an adequate liquidity marked by moderate 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 2020-22. Currently, the company does not have any long term debt on its balance sheet apart from an unsecured borrowing extended by its parent ZMBPL. The cash accruals of the company are estimated to remain around Rs.10 crore during FY2023, while there are no repayment obligations over the same period. The average cash credit limits remain utilized at around 80.00 percent for the last six month period ended May, 2022. The company maintains unencumbered cash and bank balances of Rs. 0.36 crore as on March 31, 2022. The current ratio of the company stood moderate at 1.41 times as on March 31, 2022(Prov.)

Outlook: Stable

Acuité expects STSPL to maintain a 'Stable' Outlook on account of its significant operating growth over the last few years and its foray into the larger ticket size business. The company has maintained YoY growth even during pandemic recording improved operating income on account of the larger bids. Further with recent dilution of stake to Zetwerk Manufacturing Business Private Limited, STSPL is expected to benefit as parent and operational support wrt easing working capital requirements has been infused by them in order to increase STSPL's scale of operations. The same is reflected in its Provisional numbers for FY2022. The Outlook may be revised to Positive if the company is able to achieve further sustainable growth in operating income along with maintaining stable operating margins. Conversely, the outlook may be revised to 'Negative' in case there is any further deterioration in the operating margin affecting the liquidity profile of the company.

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

None

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
02 Mar 2022	Cash Credit	Long Term	13.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	1.35	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)

	Bank Guarantee	Short Term	20.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	31.50	ACUITE A2 (Upgraded from ACUITE A3+)
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 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+)
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 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	31-01-2023	1.35	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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