

Press Release

Uppal Ferrocast Private Limited (UFPL)

May 21, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.5.50 Cr.
Long Term Rating	SMERA B/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating at '**SMERA B**' (read as SMERA B) and the short term rating at '**SMERA A4**' (read as SMERA A four) to the Rs.5.50 crore bank facilities of Uppal Ferrocast Private Limited. The outlook is '**Stable**'.

UFPL was formed in 1984 as a partnership concern with the name 'Ferrocast' by late Mr. T Venkata Narsimha Rao Deshmukh. The firm was converted to private limited company in 1997 and its name was changed to Uppal Ferrocast Private Limited (UFPL). UFPL is engaged in the manufacture of ductile and grey iron castings. The day-to-day operations are managed by Mr. T Sricharan Kumar. The company' manufacturing facility is located at Hyderabad (Telangana), with an installed capacity to manufacture 250 tonnes of castings per month. The castings are used in steel, cement and sugar mills.

The rating reaffirmation reflects sustenance of the business and financial risk profile though constrained partially by liquidity. Revenues have slightly improved to about Rs.16.15 crores (provisional) in FY 2018 (refers to April 1st to March 31st) from Rs.14.42 crores in FY2016. Operating margins are in line with the past trend at about 12.5 per cent in FY2018. SMERA believes that revenue profile is slightly to improve to about Rs.18.0 crores-Rs.20.0 crores over the medium term on the back of reputed clientele and repeat orders.

Key rating drivers

Strengths

Established track record of operations and experienced management: Established in 1984, UFPL has an established operational track record of more than three decades which has helped to develop and maintain long standing relations with customers and suppliers. The firm also benefits from its experienced promoter Mr. T Sricharan Kumar, who possess around two decades of experience. Mr. T Sricharan Kumar is well supported by his brother Mr. T Midhun Kumar, who has an experience of around a decade in the casting business.

The company has reputed clientele such as Bharat Heavy Electricals Limited (BHEL), Sandvik Asia Pvt. Ltd (SAPL), Siemens Limited, FLSmidth Private Limited, Kirloskar Ferrous Industries Limited, and JK Fenner among others. Revenues from the top five clientele is above 40 per cent of its revenues, and rest comes from others. SMERA believes that the revenue profile is expected to be about Rs.18.0 crores to Rs.20.0 crores over the medium term supported by the increasing demand from the engineering industries for the casting products.

Average financial risk profile: Financial risk profile is marked by moderate gearing levels, though underpinned by modest net worth and debt protection metrics. The net worth is at Rs.5.10 crores (provisional) as of March 31, 2018. Gearing is moderate at 1.38 times in FY2018 against 1.42 times in FY2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are average at 1.6 times and 0.10 times respectively for FY2018. SMERA believes that the

financial risk profile is expected to be at similar levels over the medium term in the absence of debt funded capital expenditure.

Weaknesses

Modest scale of revenues: UFPL reported operating revenues of Rs.10.77 crore in FY2017 as compared to Rs.14.42 crore in FY2016. For FY2018, UFPL has reported revenues of Rs.16.15 crores on provisional basis, which is a growth of ~49 per cent over FY2017. The growth in revenue is because of recovery of demand from end user industries. SMERA believes that the revenue profile is expected to be in the range bound of Rs.18.0 crores to Rs.20.0 crores over the medium term.

Intense working capital operations: UFPL's operations are working capital intensive as evident from gross current assets (GCA) days of 426 as on March 31, 2017. They are high due to the manufacturing and billing cycle of the company. Inventory days are high in the range of 234 days to 433 days and debtor days ranged from 69 days to 111 days during FY2015-2017. The longer production cycle, machining, sending it for testing, recalibration, erection and testing takes whole lot of time leading to higher inventory and work-in-progress material. Revenue booking oscillates due to the prolonged manufacturing cycle. The average receivable period is about 90 days. High GCA lead to full utilization of its working capital limits, and tight cash accruals to maturing obligations leaving minimal flexibility for working capital support. SMERA believes that the operations continue to be working capital intensive due to industry nature.

Analytical approach: SMERA has considered standalone business and financial risk profiles of UFPL.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	10.77	14.42	9.57
EBITDA	Rs. Cr.	1.37	1.76	1.49
PAT	Rs. Cr.	0.11	0.30	0.08
EBITDA Margin	(%)	12.68	12.23	15.54
PAT Margin	(%)	1.03	2.07	0.82
ROCE	(%)	11.68	13.57	21.40
Total Debt/Tangible Net Worth	Times	1.42	1.21	1.45
PBDIT/Interest	Times	1.47	1.80	1.43
Total Debt/PBDIT	Times	4.20	3.13	4.17
Gross Current Assets (Days)	Days	426	292	565

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Manufacturing Sector - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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Status of non-cooperation with previous CRA (if applicable): Not Applicable.

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-Apr-2018	Cash Credit	Long Term	4.25	SMERA B (Indicative)
	Proposed Bank Facility	Long Term	0.55	SMERA B (Indicative)
	Letter of Credit	Short Term	0.50	SMERA A4 (Indicative)
	Bank Guarantee	Short Term	0.20	SMERA A4 (Indicative)
03-Feb-2017	Cash Credit	Long Term	4.25	SMERA B/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.55	SMERA B/Stable (Assigned)
	Letter of Credit	Short Term	0.50	SMERA A4 (Assigned)
	Bank Guarantee	Short Term	0.20	SMERA 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	5.25	SMERA B/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA A4 (Reaffirmed)

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ABOUT SMERA

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