

Press Release

Sandeep Metalcraft Private Limited

July 04, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.21.50 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs.21.50 crore bank facilities of SANDEEP METAL CRAFT PRIVATE LIMITED (SMPL). The outlook is '**Stable**'.

SMPL was incorporated in 1988 by Mr. Shyam Agrawal. The company is based at Nagpur. Mr. Mahesh Ramvallabh Poddar and Mr. Krishna Swaroop Dwijendra Nath Gupta (technical director) later joined the board. SMPL has catered to industries like defence, nuclear, aerospace and automobiles. The company is engaged in manufacturing of number of assemblies that are used in armament and weapons such as ex-fuzes, tail units, small calibre shells, mortar training devices, small arms assemblies and parts. SMPL also exports sub assembly parts to countries like Germany, Israel and USA.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management and long track of operations**

SMPL was incorporated in 1988 by its promoter, Mr. Shyam Agrawal. Mr. Mahesh Ramvallabh Poddar and Mr. Krishna Swaroop Dwijendra Nath Gupta were later added as directors to the board. The company has been in the business of manufacturing armaments used in weapons such as ex-fuzes, small caliber shells and so on, which are primarily used by the defence sector. SMPL has been operating for more than three decades where it has also catered to automobile, nuclear and aerospace industry. This has helped the company in establishing good relations to ensure continuous procurement of orders. The company has also previously worked with Ashok Leyland for the automobile sector and Hindustan Aeronautics in the aerospace industry.

Acuité believes that experienced management and long track of operations will help SMPL in procuring orders in the medium term.

• **Healthy financial risk profile**

The financial risk profile is healthy marked by net worth and debt protection measures and low gearing. The net worth of SMPL stands at Rs. 37.16 crore as on 31 March, 2019 (Provisional) as against Rs.28.50 crore as on 31 March, 2018. The improvement in net worth is on account of healthy accretion to reserves. The company has followed a conservative financial policy as reflected by peak gearing of 0.62 times over the last three years through 2017-18. The gearing of the company has further improved to 0.23 times as on March 31, 2019 (Provisional) from 0.33 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.34 times as on 31 March, 2019 (Provisional) as against 0.59 times as on 31 March, 2018. The healthy revenue levels coupled with growing operating margins have resulted in low debt protection measures. Interest Coverage Ratio (ICR) improved to 16.00 times in FY2019 (Provisional) from 13.15 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.24 times as on 31 March, 2019 (Provisional) as against 1.06 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 9.03 times for FY2019 (Provisional) as against 7.26 times in FY2018.

Acuité believes that the financial risk profile of SMPL will continue to remain healthy over the medium term on account of its improving scale of operations and conservative financial policy.

- **High entry barriers**

Manufacturing of armaments for weapons and assembly parts is a highly regulated and monitored business in India. Catering to Indian Defence industry is kept highly confidential with regards to national security. The industry is bound by high entry barriers where the players and goods produced go through advanced security vetting and quality checks. This keeps the risk of increasing competition on a low. This is likely to keep the competition to SMPL low and help the company to expand the business and maintain their margins.

Weaknesses

- **Modest scale of operations due to niche category of industry**

The goods produced by SMPL belong to a highly niche category and are manufactured using high precision. Since the products manufactured are majorly sold to Indian Defence industry, the growth in demand falls limited. Also, it adds a major customer concentration risk to the company with almost 60 percent of the revenue coming from a single customer. Further, revenue generated through exports are low. Even so, SMPL has registered an increase of revenue from Rs.43.08 crore in FY2016 to Rs.59.25 crore in FY2019 (Provisional). The operating margins have also improved from 21.30 percent for FY2017 to 24.37 percent for FY2019 (Provisional) for the 3 years ending FY2019.

Outlook: Stable

Acuité believes that SMPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' in case of substantial growth in scale of operations while maintaining healthy profit margins and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profitability and deterioration in the financial risk profile.

Liquidity Position

SMPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.30 crore to Rs.10.45 crore during the last three years through 2018-19 against no maturing debt obligations over the same period. The cash accruals of the company are estimated to remain around Rs.10.80 crore – Rs.13.75 crore during 2020-22. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 155 in FY2019 (Provisional). Reliance on working capital borrowings has been moderate with the cash credit limit in the company remains utilized at 60 percent during the last 12 months ended May 2019. SMPL maintains unencumbered cash and bank balances of Rs.0.33 crore as on March 31, 2019 (Provisional). The current ratio of the company stands healthy at 5.32 times as on March 31, 2019 (Provisional). The company is likely to incur capex of Rs.1.00 crore – Rs.3.00 crore over the medium term which is expected to be funded by internal accruals. Acuite believes that the liquidity of SMPL is likely to remain adequate over the medium term on account of healthy cash accruals and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	61.29	59.25	45.15
EBITDA	Rs. Cr.	14.94	14.58	9.62
PAT	Rs. Cr.	8.80	8.42	4.59
EBITDA Margin	(%)	24.37	24.61	21.30
PAT Margin	(%)	14.35	14.22	10.17
ROCE	(%)	32.36	37.89	29.08
Total Debt/Tangible Net Worth	Times	0.23	0.33	0.62
PBDIT/Interest	Times	16.00	13.15	8.45
Total Debt/PBDIT	Times	0.56	0.64	1.25
Gross Current Assets (Days)	Days	155	216	254

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-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-Apr-2019	Cash Credit	Long Term	10.00	ACUITE BBB+ (Indicative)
	Standby Line of Credit	Long Term	1.50	ACUITE A2 (Indicative)
	Bank Guarantee	Short Term	10.00	ACUITE BBB+ (Indicative)
05-Feb-2018	Cash Credit	Long Term	10.00	ACUITE BBB+ / Stable (Assigned)
	Standby Line of Credit	Long Term	1.50	ACUITE BBB+ / Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (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	10.00	ACUITE BBB+ / Stable (Reaffirmed)
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB+ / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Reaffirmed)

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About Acuité Ratings & Research:

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