

Press Release

Sai Deepa Rock Drills Private Limited

October 01, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.29.50 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs.29.50 crore bank facilities of Sai Deepa Rock Drills Private Limited (Sai Deepa). The outlook is '**Stable**'.

Sai Deepa is a Hyderabad based company incorporated in 2000 by Mr. Ranga Rao Nutakki and family. Sai Deepa is engaged in the manufacturing of rock drilling tools which are used in various industries such as water well, oil/gas mining, quarry, and construction, tunneling and well drilling. The company started its operations in 2001 from its manufacturing unit based out of Cherlapally at Hyderabad (Telangana). Sai Deepa has 1.1 MW solar power plant for captive use located in Bhongiri (Telangana).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Sai Deepa to arrive at this rating.

Key Rating Drivers

Strengths:

Established presence and reputed client base

Sai Deepa was established in 2000 by Mr. Ranga Rao Nutakki and Mrs. Uma Rani Nutakki as promoter directors. Sai Deepa has well qualified and experienced personnel to manage the operations. The promoters have an experience of more than two decades in the rock drilling tools segment which helped the company in bagging healthy orders from its reputed clientele such as Reliance Jio Infocomm Limited, Hindustan Zinc Ltd, Wipro Enterprises Ltd, Nakoda Machinery Pvt Ltd among others. The association has helped the company in generating steady revenues at a compound annual growth rate (CAGR) of about 16 percent over five years through FY2018 (Provisional) at Rs.139.88 crore. Acuité believes that Sai Deepa's longstanding presence and relationship with reputed clients is expected to support in improving the business risk profile over the medium term.

Healthy financial risk profile

Sai Deepa's financial risk profile is healthy marked by healthy capital structure (debt-to-equity / gearing), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. Sai Deepa's net worth is healthy at Rs.46.95 crore as on March 31, 2018 (Provisional) as compared to Rs.37.74 crore as on March 31, 2017. The net worth has improved due to healthy accretion to reserves. Its operating margins are moderate and improving year-over-year to about 13.6 percent in FY2018. The capital structure is healthy marked by its gearing at 0.80 times as on March 31, 2018 (Provisional) against 1.00 times as on March 31, 2017; and TOL/TNW of 1.34 times in FY2018 (Provisional) against 1.63 times in FY2017. Moderate profitability margins coupled with healthy gearing levels has resulted in comfortable debt protection metrics with interest coverage ratio (ICR) of 5.77 times and net cash accruals to total debt of 0.31 times for FY2018 (Provisional). Acuité believes that the financial risk profile continues to be healthy supported by improving business risk profile, improving profitability and no significant debt-funded capex plans over the medium term.

Steady growth in revenues and profitability margins

Sai Deepa is one of the largest players in rock drilling tools segment in India. Its revenue has grown steadily by 17.50 percent in FY2017 and 12.50 percent in FY2018 (Provisional). This steady growth is supported by better volume and realisation growth. Operating profit margins improved from 10.13 percent in FY2016 to 13.60 percent in FY2018 (Provisional) and net profit margins improved from 0.79 percent in FY2016 to 6.57 percent in FY2018 (Provisional). Growth in the profitability is partly attributed to increase in the scale of operations and operating efficiencies. Acuité believes that the margins are expected to be at similar levels over the medium term supported by efficiencies and improving revenues expected to be in the range of Rs.150.0 – 180.0 crore over medium term.

Weaknesses:

Working capital-intensive operations

Sai Deepa's operations are moderately capital intensive with Gross Current Assets (GCA) of about 151 days in FY2018 (Provisional) and 161 days in FY2017. It maintains moderate inventory of about 60-90 days, and receivables of 70-90 days over past three years through FY2018 (Provisional). Sai Deepa's utilisation of its working capital limits of Rs.14.00 crore is at about 82 percent over six months through June 2018. Going forward, with no major capex plans in place and healthy cash accruals, though reliance on working capital debt is expected to be moderate, however, expected improvement in revenues continue to keep the operations working capital intensive.

Outlook: Stable

Acuité believes that Sai Deepa will maintain a 'Stable' outlook over the medium term backed by its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or any significant debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	139.88	122.42	101.00
EBITDA	Rs. Cr.	19.03	14.08	10.23
PAT	Rs. Cr.	9.19	4.79	0.80
EBITDA Margin	(%)	13.60	11.50	10.13
PAT Margin	(%)	6.57	3.91	0.79
ROCE	(%)	20.76	16.37	15.12
Total Debt/Tangible Net Worth	Times	0.80	1.00	1.05
PBDIT/Interest	Times	5.57	4.22	4.11
Total Debt/PBDIT	Times	1.91	2.67	3.25
Gross Current Assets (Days)	Days	151	161	197

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	14.00	ACUITE BBB/ Stable (Assigned)
PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	13.25	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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