

Press Release

Step Industries Private Limited

May 10, 2019

Rating Upgraded



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|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 45.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable) |
| Short Term Rating | ACUITE A3 (Upgraded from ACUITE A4+) |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.45.00 crore bank facilities of Step Industries Private Limited (SIPL). The outlook is '**Stable**'.

The upgrade reflects significant improvement in business profile reflecting in substantial rise in revenues. The rating continues to reflect the company's comfortable financial risk profile and experienced management. These rating strengths are partially offset by elongated, however, improving working capital requirement.

SIPL, incorporated in 2011, is promoted by Mr. Ankit Tayal, Mr. Deepanshu Tayal and Mr. Sunil Tayal. The company manufactures cable wires and undertakes EPC projects on tender basis. The company has its manufacturing unit with capacity of 10000 km cable/year located at Alwar (Rajasthan).

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SIPL to arrive at the rating.

Key Rating Drivers

Strengths

• Growing scale of operations and modest profitability

SIPL supplies cable to EPC contractors as well as executes EPC contract itself resulting in diversified revenue stream. This has helped the company post healthy y-o-y growth of around 25-30 percent for past three years ended fiscal 2018. Further, the company has posted revenue of Rs.171.07 Crore as on December, 2018 (provisional) supported by orders from Larsen & Toubro Limited (L&T), increase in capacity and offtake from existing customers. SIPL has entered into a contract with L&T, wherein SIPL is required to supply cables and the same has contributed to around 45 percent of its revenue in FY2018-2019 (provisional). The operating margins have been moderate at 7.72 percent in FY2018 as against 10.09 percent in the previous year. The decline in operating margins has been mainly due to rise in employee costs after the company ventured into execution of EPC contracts.

• Healthy financial risk profile

SIPL's financial risk profile remains comfortable with healthy net worth, comfortable gearing and moderate debt protection metrics. The net worth stood at Rs. 35.18 Crore in FY2018 as against Rs. 32.29 Crore in FY2017. Acuite has considered Rs. 25.64 Crore of unsecured loans as quasi equity as the same is subordinated to the bank debt. The gearing stood at 0.28 times in FY2018 as against 0.19 times in FY2017. The total outside liability against total net worth remained comfortable at 1.44 times in FY2018 as against 1.22 times in the previous year. The debt protection metrics remained moderate with interest coverage ratio of 1.84 times in FY2018 as against 1.45 times in the previous year.

• Experienced management

SIPL, erstwhile Brimson Cable Private Limited, was acquired by its present promoters, Mr. Ankit Tayal, Mr. Deepanshu Tayal and Mr. Sunil Tayal in 2011. The day to day operations of the company is managed by Mr. Narendra Patni who possess more than three decades experience in supply chain management and construction activity.

Weaknesses

• Working capital intensive nature of business

SIPL's operations are working capital intensive reflected in high GCA of 305 days in FY2018 as compared to 330 days in FY2017. The GCA days are mainly dominated by high credit period extended to customer at 133 days in FY2018 as against 202 days in FY2017. The significant debtors are mainly on account of delay in receivables from government entities in EPC contracts. However, the same has witnessed an improving trend in FY2018-2019 on account of inbuilt mechanism with L&T, wherein SIPL avails a bill discounting provided by the former. This has helped the company to realize prompt payments for business routed through L&T. Further, the same is expected to also lower the incremental working gap requirement despite significant increase in revenue.

Outlook: Stable

Acuite believes that SIPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to sustain growth in revenue and improvement in profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 79.62 | 58.23 | 32.73 |
| EBITDA | Rs. Cr. | 6.15 | 5.87 | 3.20 |
| PAT | Rs. Cr. | 1.91 | 0.87 | 0.17 |
| EBITDA Margin | (%) | 7.72 | 10.09 | 9.79 |
| PAT Margin | (%) | 2.40 | 1.50 | 0.53 |
| ROCE | (%) | 15.50 | 16.02 | 11.11 |
| Total Debt/Tangible Net Worth | Times | 0.28 | 0.19 | 0.47 |
| PBDIT/Interest | Times | 1.84 | 1.45 | 1.33 |
| Total Debt/PBDIT | Times | 1.39 | 1.06 | 2.85 |
| Gross Current Assets (Days) | Days | 305 | 330 | 357 |

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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 |
|-------------|---------------------------------|------------|------------------|--------------------------------|
| 06-Mar-2018 | Cash Credit | Long Term | 7.00 | ACUITE BB+ / Stable (Assigned) |
| | Bank Guarantee | Short Term | 19.50 | ACUITE A4+ (Assigned) |
| | Proposed Bank Facility | Long Term | 18.50 | ACUITE A4+ (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 | 7.00 | ACUITE BBB- / Stable (Upgraded) |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 19.50 | ACUITE A3 (Upgraded) |
| Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 18.50 | ACUITE A3 (Upgraded) |

Contacts

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About Acuité Ratings & Research:

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