

Press Release

Asian Sealing Products Private Limited

December 05, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 25.00 crore bank facilities of Asian Sealing Products Private Limited (Asian or the Company). The outlook is '**Stable**'.

Incorporated in 2009, Asian Sealing Products Private Limited (Asian) manufactures industrial gaskets (metallic & nonmetallic) that find application in various industries like oil & gas, petro chemical industries. Major types of Gaskets manufactured by the Asian are Ring Type Joint Gaskets, Spiral Wound Gaskets, Insulation Kit Gaskets, Non Metal and other special gaskets.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Asian to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

Asian, incorporated in 2009 is promoted by Mr. Rathinam Aranganathan, Ms. Lakshmi Priya Veerakumar and Mr. Subramaniam Venkatakrishnan. The directors are pioneers in the industry marked by experience of nearly two decades in the engineering goods industry helped in getting repeat orders from its clientele. It has vintage clientele of Reliance Industries Ltd, Indian Oil Corporation Limited, Oil And Natural Gas Corporation Limited, Wolar Industrial Inc, Klinger Ltd, Freudenberg Oil & Gas Technologies, L&T Valves Limited, Bharat Heavy Electricals Limited among others. Asian's revenues have seen a compound annual growth rate (CAGR) of about 10.5 per cent over the past three years through FY2018 at Rs.50.2 crores. Acuite believes that experience of the promoters and reputed clientele is expected to support the business risk profile over the medium term.

Weaknesses

• Below-Average financial risk profile

The financial risk profile of the Asian is below-average, marked by weak debt protection metrics though partly supported by moderate gearing (debt-to-equity) and high total outside liabilities to total network (TOL/TNW). The Asian's gearing is moderate at 1.40 times as of March 31, 2018; deteriorated from 0.76 times in FY2017 due to major reliance on working capital borrowings. Its network is modest at Rs.17.12 crores as of March 31, 2018 (includes Rs.10.34 Crs of unsecured loans sub-ordinated) and total outside liabilities to total network (TOL/TNW) is high at 2.60 times. Also, the debt / EBITDA are very high at 8.04 times in FY2018 and 4.70 times in FY2017. Asian's debt protection metrics are weak: Interest Coverage Ratio (ICR) at 1.03 times and Net Cash Accruals to Total Debt (NCA/TD) negative at 0.01 times as on March 31, 2018. Asian's expected cash accruals are in the range of Rs.1.4 - 2.0 crores, against which its repayment obligations are Rs.1.2 crores per annum. Acuite believes that with moderate accruals and repayment obligations, the financial profile of the Asian is expected to be at similar levels over the medium term.

• Volatile operating margins and stagnant revenues

The company registered revenue of Rs.50.23 crore in FY2018 as against Rs. 51.19 crore in FY2017. The operating margins (EBITDA) declined to 5.5 per cent in FY2018 from 7.27 per cent in FY2017. The company reported net loss of Rs.0.82 crs in FY2018 against net profit of Rs.1.2 crores in FY2017. The products majorly find application in oil and gas, refineries and petrochemicals, power generation etc. The slowdowns in the industry, demand concern in oil and steel prices have affected the revenues and profitability. At Operating PBT level, it incurred losses in FY2018 due to high interest costs. Acuite believes that improvement of revenues and profitability are key rating sensitivity factors in improving its business and financial risk profile over the medium term.

• Working capital intensive operations

Asian's operations are working capital oriented, as reflected in its high Gross Current Asset (GCA) days of 253 as on March 31, 2018. The high GCA is mainly attributed to high debtor days of about 102 and high inventory days 116 days for FY2018. High GCA lead to high utilisation of its working capital limits of Rs.12. crore of cash credit at about 98 percent over six months through October 2018. With low cash accruals and incremental working capital requirement for the expected increase in scale of operations are expected to keep the operations working capital intensive over the medium term.

Outlook: Stable

Acuite believes that Asian will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	50.23	51.19	41.09
EBITDA	Rs. Cr.	2.77	3.72	2.43
PAT	Rs. Cr.	-0.83	1.20	0.30
EBITDA Margin	(%)	5.52	7.27	5.92
PAT Margin	(%)	-1.65	2.35	0.73
ROCE	(%)	5.64	9.29	13.32
Total Debt/Tangible Net Worth	Times	1.52	0.94	0.97
PBDIT/Interest	Times	1.03	2.47	1.53
Total Debt/PBDIT	Times	8.32	5.27	6.22
Gross Current Assets (Days)	Days	253	273	277

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

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	4.00	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE B+ / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiteinratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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