

Press Release

ASIAN SEALING PRODUCTS PRIVATE LIMITED

February 27, 2020



Rating Reaffirmed

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

Acuité has reaffirmed the long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) and short term rating of '**ACUITE A4** (read as **ACUITE A four**) on the Rs. 25.00 crore bank facilities of ASIAN SEALING PRODUCTS PRIVATE LIMITED (ASPPL). The outlook is '**Stable**'.

Incorporated in 2009, ASPPL 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

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

Key Rating Drivers

Strengths

- **Experienced management**

ASPPL, incorporated in 2009 is promoted by Mr. Rathinam Aranganathan, Ms. Lakshmi Priyaa Veerakumar and Mr. Subramaniam Venkatakrishnan. The directors are pioneers in the industry marked by experience of nearly two decades in the engineering goods industry which has helped the company 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.

Acuité believes that experience of the promoters and reputed clientele is expected to support the business risk profile over the medium term.

- **Moderate scale of operations and improvement in profitability**

The company has reported moderate revenue growth with compounded annual growth rate (CAGR) of around ~3.10 percent through the last three years ended 31 March, 2019. The company reported revenue growth of ~8.32 percent with operating income of Rs.54.41 crore in FY2019 as against operating income of Rs.50.23 crore in FY2018. Further, the company has generated revenues of Rs. 42.59 crore (Provisional) for FY2020 (9M). The operating margins of the company increased to 15.87 percent in FY2019 from 5.52 percent in FY2018. This is majorly because of certain product mix which has boosted the profitability along with reduction in certain expenses.

Acuité believes that the scale of operations will remain moderate in near to medium term and the sustainability of profitability is uncertain as it depends upon the product mix.

Weaknesses

- **Intensive working capital operations**

The working capital of ASPPL is intensive in nature marked by high Gross Current Asset (GCA) days of 222 for FY2019 as against 253 in the previous year. This is on account of high inventory days which stood at 122 for FY2019 as against 112 for FY2018, further debtor days stood at 97 in FY2019 as against 102. Also, the reliance on working capital facility is high, it is fully utilized on an average for last 6 months ending January, 2020.

Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Average financial risk profile**

The financial risk profile is moderate marked by moderate net worth and debt protection measures and high gearing. The net worth of the company is moderate at Rs.16.12 crore as on 31 March 2019 as against Rs.16.30 crore as on 31 March 2018. The gearing (debt to equity) of the company stood at 1.50 times as on March 31 2019 as against 1.52 times as on March 31 2018. Total debt of Rs.24.15 crore consists of term loan of Rs.11.67 crore, unsecured loans of Rs.0.46 crore and working capital facility of Rs.12.03 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.60 times as on 31 March 2019 as against 2.79 times as on 31 March 2018. Interest Coverage Ratio (ICR) improved to 1.77 times in FY2019 from 1.03 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on 31 March 2019 as against negative 0.01 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) improved to 1.39 times in FY2019 from 0.72 times in FY2018.

Rating Sensitivity

- Significant Increase in scale of operations along with the profitability.
- Improvement in working capital operations.

Material Covenants

None.

Liquidity Position: Adequate

ASPPL has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.56 crore in FY2019 as against negative Rs.0.15 crore in FY2018 and Rs.1.62 crore in FY2017, while its maturing debt obligation was around Rs.2.58 crore for FY2019, Rs.1.20 crore for FY2018 and Rs.0.90 crore for FY2017. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 222 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilized during the last 6 months' period ended January, 2020. The company maintains unencumbered cash and bank balances of Rs.0.41 crore as on March 31, 2019. The current ratio of the company stands at 1.10 times as on March 31, 2019.

Outlook: Stable

Acuité believes that ASPPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in ASPPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	54.41	50.23
PAT	Rs. Cr.	0.89	(0.83)
PAT Margin	(%)	1.63	(1.65)
Total Debt/Tangible Net Worth	Times	4.10	5.06
PBDIT/Interest	Times	1.77	1.03

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - [acuite.in/view-rating-criteria-52.htm](https://www.acuite.in/view-rating-criteria-52.htm)
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
05-Dec-2018	Cash Credit	Long Term	4.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	12.50	ACUITE B+/Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.50	ACUITE B+/Stable (Assigned)
	Packing Credit	Short Term	8.00	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	4.00	ACUITE B+/Stable (Reaffirmed)
Term Loan	12-03-2019	14.20%	12-03-2024	12.50	ACUITE B+/Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+/Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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