

Press Release

Swastik Copper Private Limited

D-U-N-S® Number: 86-260-8172



March 27, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 62.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 62.50 crore bank facilities of Swastik Copper Private Limited (SCPL). The outlook is '**Stable**'.

SCPL was established in 1993 by Mr. Sandeep Jain who was supported by his father, Late Shri Shashi Kumar Jain. SCPL is engaged in manufacturing and distribution of power transformers ranging from 16 KVA 11 KV Class to 10 MVA 33 KV Class. The manufacturing unit is situated in Sitapura Industrial Area of Jaipur with a production capacity of 20000 transformers per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The promoter of SCPL, Mr. Sandeep Jain, has more than two decades of experience in the transformers industry. He is further supported by Mrs. Neelam Jain who also has around two decades of experience in the transformer industry through this entity. SCPL has reputed customers which include private clients such as Larson & Toubro and various state electricity boards such as Paschimanchal Vidyut Vitran Nigam Ltd, Rajasthan, Dakshinachal Vidyut Vitran Nigam Ltd., Agra and Rajasthan Rajya Vidyut Prasaran Nigam Ltd., Jaipur to name a few. SCPL has established relations with these customers which helps it to get repeated business. Acuité believes that SCPL will be benefitted by the established track record of operations over the mediumterm.

- **Growth in scale of operations with moderate profitability and moderate order book position**

SCPL has recorded growth in scale of operations marked by operating income of Rs.105.83 crore in FY2018 as against Rs.74.20 crore in FY2017. Further, SCPL has booked revenue of ~Rs. 86.00 crore for the period April to December, 2018 (Provisional). The operating margin declined to 6.57 percent in FY2018 as compared to 8.47 percent in FY2017, on account of fluctuation in raw material prices majorly copper and steel. The net profitability also declined to 0.32 percent in FY2018 as compared to 0.46 percent in FY2017. However, SCPL has recorded operating margin of ~8.06 percent till December 2018 (Provisional). Further, SCPL has orders in hand of Rs.125.00 crore as on 31 December, 2018 from government and non-government clients, which gives visibility of revenue in the medium term.

Weaknesses

- **Average financial risk profile**

The financial risk profile of SCPL is average marked by moderate net worth, average debt protection measures and high TOL/TNW. The tangible net worth of SCPL stood average at Rs.18.04 crore as on 31 March, 2018 (PY: Rs.16.62 crore) which includes unsecured loans to the tune of Rs.5.08 crore (PY: Rs.3.99 crore) considered as quasi equity. Gearing (debt/equity) stood at 1.81 times as on 31 March, 2018 as compared to 1.43 times as on 31 March, 2017. Total debt of Rs.32.74

crore outstanding as on 31 March, 2018 comprises Rs.5.67 crore as term loan from the bank and Rs.27.07 crore as short term working capital borrowings. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 4.97 times as on 31 March, 2018 (PY: 5.50 times) majorly on account of high dependencies on working capital borrowings. The interest coverage ratio (ICR) stood stable at 1.15 times in FY2018 as compared to 1.16 times in FY2017. DSCR stood low at 0.97 times in FY2018 as compared to 1.04 times in FY2017. Net cash accruals have decreased to Rs.0.66 crore in FY2018 (PY: Rs. 0.72 crore) due to decline in operating profitability in FY2018 over FY2017.

Acuité believes that the financial risk profile of SCPL will remain average on account of moderate generation of net cash accruals as against the repayment obligations in the same period.

- **High working capital intensity**

The operations of SCPL are highly working capital intensive marked by high GCA of 333 days in FY2018, however improved, as compared to 474 days in FY2017. The GCA days stood high majorly on account of high collection period and inventory holding period. The inventory holding period improved to 140 days in FY2018 as compared to 232 days in FY2017, due to better realisation from inventory. SCPL's customer base includes majorly government entities (power distribution companies) which release money after clearance of quality checks resulting in significant time lag in realisation of receivables. Due to this, payment to suppliers is also delayed as they have back to back payment terms with suppliers resulting in full utilisation of working capital limits.

- **Highly competitive and fragmented industry with tender based nature of business**

The transformer industry, especially the distribution transformer segment is highly fragmented with presence of many organised and unorganised players. The competition in the domestic transformer industry has been increasing since the last two-three years due to factors including import of cheaper equipment, especially from China, and large number of smaller players with limited capacity entering the industry due to its high profitability and easy availability of technology. SCPL majorly undertakes government projects, which are awarded through the tender-based system. SCPL is exposed to the risk associated with the tender-based business. Also, as most of the business is tender-driven, the incumbent players have witnessed margin pressures due to aggressive bidding from the players seeking an entry in the market.

Liquidity position:

SCPL has moderate liquidity marked by low net cash accruals to its maturing debt obligations. SCPL generated cash accruals of Rs.0.93-0.66 crore during the last three years through 2017-18, while its maturing debt obligations were Rs.0.85-0.50 crore over the same period. SCPL is expected to have long term repayment obligations at the same level in the near term. The net cash accruals to total debt (NCA/TD) of the SCPL stood at 0.02 times for FY2018 (PY: 0.03 times). The cash credit limit of SCPL remains utilised at 95 percent during the last three months ended February 2019. SCPL maintained unencumbered cash and bank balances of Rs.0.35 crore as on March 31, 2018. The current ratio of SCPL stood average at 1.14 times as on March 31, 2018. Acuité believes that the liquidity of SCPL is likely to improve over the medium term on account of improvement in scale of operations.

Outlook: Stable

Acuité believes that SCPL will maintain a 'Stable' business risk profile over the medium term on the back of experienced management. The outlook may be revised to 'Positive' in case SCPL registers healthy growth in revenue while achieving sustained improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the SCPL's financial risk profile or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	105.83	74.20	88.51
EBITDA	Rs. Cr.	6.96	6.28	7.24
PAT	Rs. Cr.	0.34	0.34	0.49
EBITDA Margin (%)	(%)	6.57	8.47	8.18
PAT Margin (%)	(%)	0.32	0.46	0.55
ROCE (%)	(%)	14.68	14.28	31.93
Total Debt/Tangible Net Worth	Times	1.81	1.43	1.86
PBDIT/Interest	Times	1.15	1.16	1.19
Total Debt/PBDIT	Times	4.68	3.76	3.83
Gross Current Assets (Days)	Days	333	474	391

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

Not Applicable.

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	20.00	ACUITE BB / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+

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About Acuité Ratings & Research:

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