

Press Release

Swastika Steel & Allied Products Private Limited (SSAPPL)

June 10, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.35.00 crore of bank facilities of Swastika Steel & Allied Products Private Limited (SSAPPL). The outlook is '**Stable**'.

Swastika Steel & Allied Products Private Limited was established in the year of 1959 as a partnership firm by Mr. Shiv Kumar Sharda and Mr. Sushil Kumar Sharda. The entity was reconstituted as a private limited company in 2011. The company is engaged in manufacturing of structural steel, angles, channels and wire rods etc. The manufacturing facility of the company is located in Kolkata, West Bengal. The company is an approved vendor for Power Grid Corporation of India Limited, NTPC Ltd and other electricity boards.

Analytical Approach:

Acuité has taken a standalone view of the business and financial risk profile of SSAPPL to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

SSAPPL, a Kolkata based company was established in 1959 as partnership firm by Mr. Shiv Kumar Sharda and Mr. Sushil Kumar Sharda and changed its constitution to private limited company and its current name in 2011. Both the promoters are associated with the company since inception, thus having more than 5 decades of experience in iron and steel industry.

Above average risk profile

The above average financial risk profile of the company is marked by moderate net worth, comfortable gearing and moderate debt protection metrics. The net worth of the company stands moderate at Rs.18.94 crore in FY2019 (Prov.) as compared to Rs.16.70 crore in FY2018, mainly due to retention of annual profit. Acuité has considered Rs.11.00 crore of unsecured loan from promoters as quasi equity as its subordinated with bank debt. The gearing of the company stands comfortable at 0.59 times as on March 31, 2019 (Prov.) when compared to 0.62 times as on March 31, 2018. The total debt of Rs.11.03 crore consist of short term debt of Rs.9.81 crore and unsecured loan from promoters of Rs.1.22 crore. The interest coverage ratio (ICR) is moderate and stands at 1.73 times in FY 2018 as against 1.64 times in FY 2017. The debt service coverage ratio also stands comfortable at 1.57 times in FY2019 (Prov.) as against of 1.45 times in FY2018. The net cash accruals against total debt stand comfortable at 0.21 times in FY2019 (Prov.) as compared to 0.16 times in the previous year. The financial risk profile of the company is expected to sustain at comfortable levels over the medium term backed by healthy accruals and no major debt funded capex.

Efficient working capital management

SSAPPL's working capital cycle is moderate marked by Gross Current Asset (GCA) days of 89 in FY2019 (Prov.) as compared to 84 days in FY2018. The average inventory is in the range of 34-53 days in the last three years ended FY2019 (Prov.). The company has a well-managed receivable cycle, with no instances of bad debt in the last few years. Average debtor days stood at 27-39 in the last two financial years FY2019 (Prov.)

Weaknesses

Highly fragmented and competitive industry

SSAPPL operates in highly fragmented industry wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Volatility in raw material prices

Margins of the company are susceptible to volatility in raw material prices which have been uneven during the period under study. Any significant changes in raw material prices due to import pressure and over supply would have an impact on the revenues and margins of the company.

Liquidity Position:

The company has moderate liquidity marked by adequate net cash accruals of Rs.2.30 crore as compared to Rs.1.62 crore in the previous year. The working capital is prudently managed as reflected by high gross current asset (GCA) days of 89 in FY 2019 (Prov.). This has led to moderate reliance on working capital borrowings, the working capital limit in the company remains utilised at 70-80 percent during the last 6 months ended April 2019. Going forward, Acuité believes liquidity is likely to remain moderate due to healthy accruals as against of repayment obligations and no major debt funded capex plan.

Outlook: Stable

ACUITE believes SSAPPL will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenues, or in case of deterioration in the firm's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	154.80	132.35	101.48
EBITDA	Rs. Cr.	7.04	5.81	4.11
PAT	Rs. Cr.	2.00	1.33	1.02
EBITDA Margin	(%)	4.55	4.39	4.05
PAT Margin	(%)	1.30	1.01	1.00
ROCE	(%)	23.55	21.06	30.08
Total Debt/Tangible Net Worth	Times	0.58	0.62	0.66
PBDIT/Interest	Times	1.73	1.64	1.71
Total Debt/PBDIT	Times	1.57	1.77	2.49
Gross Current Assets (Days)	Days	89	84	108

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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB-/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BBB-/Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)
Proposed Bill Discounting	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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