

Press Release

Swastika Steel & Allied Products Private Limited

September 16, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

The rating on SSAPPL is driven by experienced management, long track record of operations and healthy relationship with reputed customers and suppliers. Further, the rating draws comfort from its conservative leverage policy and adequate liquidity position. These strengths are partly offset by elongated working capital cycle and cyclical nature of the steel industry.

About the company

Incorporated in 2011, Swastika Steel & Allied Products Private Limited (SSAPPL), a West Bengal based company is engaged in manufacturing of structural steel, angles, channels wire rods etc. Currently, the company is headed by Mr Shiv Kumar Sharda and Mr. Sushil Kumar Sharda, who are promoter directors. The promoters had started their business activities in the form of a partnership firm in 1959 and the constitution was changed in 2011 under its current name. The company is an approved vendor for Power Grid Corporation of India Limited, NTPC Ltd and other electricity boards.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SSAPPL to arrive at the rating.

Key Rating Drivers

Strengths

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

Established in 2011, Swastika Steel & Allied Products Private Limited has a long operational track record of around a decade in manufacturing of structural steel, angles, channels wire rods. The management of SSAPPL, consists of the promoters of the company, who are first generation entrepreneurs. The key promoters, Mr. Shiv Kumar Sharda and Mr. Sushil Kumar Sharda have been in the steel industry for over six decades. The long standing experience has been through their erstwhile partnership concern. Acuité derives comfort from the long experience of the promoters.

- **Healthy relationship with reputed customers and suppliers**

The company has built a strong relationship of more than 10 years with reputed customers, namely, Cabcon India Limited, EMC Limited, Laser Power & Infra Private Limited (ACUITE A+/Stable/ A1+) and Utkarsh India Limited (ACUITE A- /Stable/ A2+). Also, the company is an approved vendor for Power Grid Corporation of India Limited and NTPC Limited. SSAPPL has established relationship for more than 15 years with suppliers, namely, Steel Authority of India Limited (SAIL), Rashtriya Ispat Nigam Limited and BMW Industries Limited. Acuité believes that the established relationship with reputed customers and suppliers will benefit the company going forward, resulting in steady growth in the scale of operations.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by moderate albeit improving networth, comfortable gearing and modest debt protection metrics. The tangible net worth of the company improved to Rs.24.36 Cr as on March 31, 2021 (provisional) from Rs.22.67 Cr as on March 31, 2020 due to accretion to reserves. Acuité has considered unsecured loans to the tune of Rs.13.68 Cr as on March 31, 2021 (provisional) as part of networth as these loans are subordinated to bank debt. Gearing of the company stood below unity at 0.48 times as on March 31, 2021 (provisional) as against 0.49 times as on March 31, 2020. The debt of Rs.11.66 Cr is working capital borrowing from the bank as on March 31, 2021 (provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.52 times as on March 31, 2021 (provisional) as against 0.82 times as on March 31, 2020. The modest debt protection metrics of the company is marked by Interest Coverage Ratio at 1.69 times as on March 31, 2021 (provisional) and Debt Service Coverage Ratio at 1.55 times as on March 31, 2021 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.15 times as on March 31, 2021 (provisional). Acuité believes that going forward the financial risk profile of the company will remain at similar level backed by steady accruals and no major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 123 days in 31st March 2021 (provisional) as compared to 112 days in 31st March 2020. The moderate level of GCA days is on account of moderate level of inventory days and current assets due to balance with government authorities. The inventory days stood moderate at 68 days in 31st March 2021 (provisional) as compared to 39 days as on 31st March 2020. The debtor period stood comfortable at 51 days in 31st March 2021 (provisional) as compared to 61 days in 31st March 2020. Acuité believes that the working capital operations of the firm will remain at the same levels as evident from moderate inventory levels over the medium term.

- **Intense competition and inherent cyclical nature of the steel industry**

The industry remained heavily fragmented and unorganized. The company is exposed to intense competitive pressures from large number of organized and unorganized players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by the net cash accruals which stood at Rs.1.79 Cr in March 31, 2021 (provisional) as against no debt repayment. The current ratio stood strong at 2.78 times as on March 31, 2021 (provisional) as compared to 2.11 times as on March 31, 2020. The fund based limit remains utilised at 62 per cent over the twelve months ended July, 2021. The company has not availed loan moratorium, but has taken an additional covid loan of Rs 1.50 Cr. The cash and bank balances of the company stood at Rs.0.21 Cr as on March 31, 2021 (provisional) as compared to Rs.0.12 Cr as on March 31, 2020. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 123 days in 31st March 2021 (provisional) as compared to 112 days in 31st March 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals and no debt repayment obligations.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of experience of the promoters, long track record of operations and healthy relationship with reputed customers and suppliers. The outlook may be revised to 'Positive' in case the company continues to register consistent growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	101.69	123.17
PAT	Rs. Cr.	1.39	1.52
PAT Margin	(%)	1.36	1.24
Total Debt/Tangible Net Worth	Times	0.48	0.49
PBDIT/Interest	Times	1.69	1.64

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated April 29, 2021 had denoted the rating of Swastika Steel & Allied Products Private Limited as 'CRISIL BB/Stable/A4+; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Cr)	
26-Aug-2020	Cash Credit	Long term	13.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Cash Credit	Long term	1.25	ACUITE BBB-/Stable (Reaffirmed)
	Bill Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Bill Discounting	Short Term	18.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Reaffirmed)
10-Jun-2019	Cash Credit	Long term	13.00	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long term	1.25	ACUITE BBB-/Stable (Assigned)
	Bill Discounting	Short Term	2.00	ACUITE A3 (Assigned)
	Proposed Bill Discounting	Short Term	18.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.25	ACUITE BBB-/Stable (Reaffirmed)
Axis Bank	ECLGS	Not Applicable	Not Applicable	Not Applicable	2.99	ACUITE BBB-/Stable (Reaffirmed)
Not Applicable	Proposed Fund Based Facilities	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE BBB-/Stable (Reaffirmed)
Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Axis Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Srijita Chatterjee Analyst - Rating Operations Tel: 033-6620 1212 srijita.chatterjee@acuite.in	

About Acuité Ratings & Research

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