

Press Release

Swastika Steel & Allied Products Private Limited

October 25, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	18.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	35.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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**'.

Rationale for the rating

The rating is driven by the extensive experience of the promoters, established relationship with its customers and suppliers, above average financial risk profile along with adequate liquidity position. However, the rating is partly offset by working capital intensive nature of the company and the competition it faces from other steel players in the 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

Acuite 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 key promoters, Mr Shiv Kumar Sharda and Mr Sushil Kumar Sharda have been in the steel industry for over six decades through their erstwhile partnership concern. The promoters have also extended funding support to the company in the form of unsecured loans. Acuité derives comfort from the long experience of the promoters.

- **Steady business risk profile**

The revenue of the company stood healthy at Rs 155.15 Cr in FY2022 as compared to Rs 101.64 Cr in the previous year. The increase in the top line is on account of improved export and domestic business backed by an uptick in the steel demand and price escalation on steel products in FY2022. The revenue till first six months of FY2023 stood at Rs 83.52 Cr (Prov), out which exports accounts for around Rs 4.00 Cr. The operating margin of the company increased marginally to 5.14 Per cent in FY2022 as against 4.89 per cent in FY2021. Acuite believes that going forward, operating margin would remain under pressure due to export duty imposed by the government.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by modest networth, comfortable gearing and moderate debt protection metrics. The tangible net worth of the company improved to Rs29.27 Cr as on March 31, 2022 from Rs.24.28 Cr as on March 31, 2021 due to accretion to reserves. Acuité has considered unsecured loans to the tune of Rs.16.61 Cr as on March 31, 2022 as part of networth as these loans are subordinated to bank debt. Gearing of the company stood comfortable at 0.79 times as on March 31, 2022 as against 0.35 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 1.06 times as on March 31, 2022 as against 0.59 times as on March 31, 2021. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 1.91 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.71 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood comfortable at 0.13 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will remain in similar level backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 134 days in FY2022 as compared to 131 days in FY2021. The high GCA days are mainly on account of high level of current assets due to balance with government authorities. The debtor period stood comfortable at 58 days as on 31st March 2022 as compared to 55 days as on 31st March 2021. Further, the inventory days stood at 62 days as on 31st March 2022 as compared to 68 days as on 31st March 2021. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and 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 Sensitivities

- Growth in scale of operations while improving profitability margin
- Sustenance of capital structure

- Elongation in working capital cycle

Material covenants

None.

Liquidity Position Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.2.90 Cr as on March 31,2022 as against no debt repayment. The current ratio stood comfortable at 2.02 times as on March 31,2022 as compared to 2.56 times as on March 31,2021. The fund-based limit remains utilised at 58 per cent over the eight months ended August, 2022. The company has neither availed loan moratorium, nor any additional covid loan. The cash and bank balances of the company stood at Rs.0.13 Cr as on March 31, 2022 as compared to Rs.0.21 Cr as on March 31,2021. However, the intensive working capital nature of operations of the company is marked by high Gross Current Assets (GCA) of 134 days as on March 31, 2022 as compared to 131 days as on March 31, 2021. 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 a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or deterioration in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	155.15	101.64
PAT	Rs. Cr.	2.06	1.30
PAT Margin	(%)	1.33	1.28
Total Debt/Tangible Net Worth	Times	0.79	0.35
PBDIT/Interest	Times	1.91	1.70

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

CRISIL, vide its press release dated June 20, 2022 had denoted the rating of Swastika Steel & Allied Products Private Limited as 'CRISIL B/Stable/A4; ISSUER NOT COOPERATING'.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2021	Working Capital Term Loan	Long Term	2.99	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.76	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	14.25	ACUITE BBB- Stable (Reaffirmed)
26 Aug 2020	Bank Guarantee	Short Term	0.75	ACUITE A3 (Reaffirmed)
	Proposed Bills Discounting	Short Term	18.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	1.25	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
10 Jun 2019	Bills Discounting	Short Term	2.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Assigned)
	Proposed Bills Discounting	Short Term	18.00	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	1.25	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.25	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.99	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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