

## Press Release

### Sonal Vyapar Private Limited

October 10, 2019



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 23.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Stable (Assigned)
<b>Short- Term Rating</b>	ACUITE A4+ (Assigned)

\* 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. 23.00 crore bank facilities of SONAL VYAPAR PRIVATE LIMITED (SVPL). The outlook is '**Stable**'.

Established in 1983, Sonal Vyapar Private Limited manufactures structural steel (primarily comprising mild steel angles and channels) at its facility in Salem, Tamil Nadu. The promoters are Mr. Ravi Gupta and his son Mr. Alok Gupta. SVPL is a part of the OPG Group, which has interests in steel manufacturing and power generation. On January 14, 2016, the company converted its corporate status from public company to a private company and was subsequently re-named from Sonal Vyapar Limited to Sonal Vyapar Private Limited.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- Experience of promoters and established track record of operations**

SVPL is a part of the OPG Group and the directors are Mr. Ravi Gupta and his son Mr. Alok Gupta, who have an experience of over five decades in this industry. The company is a part of OPG Group founded by Late Mr. Om Prakash Gupta, which has been in operation for over five decades. The OPG Group operates and develops power generation assets in India. However, the day-to-day operations of SVPL are under the directorship of Mr. Ramasamy Raajasekaran and Mr. Ravi Shankar Pathak, who are the whole-time directors. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers, reflected in its revenue growth at a compound annual growth rate (CAGR) of about 13.75 per cent over the past three years through FY2019 (provisional) at Rs.194.91 crore. The client sells across southern region, and hence has a client concentration across South. It is also into business with one of its group concern, 'Sonal Iron Industry Private Limited'; however, the volume of transactions is about 15 per cent of its total purchases or sales. Acuité believes that the promoters' long-standing presence is expected to support in improvement of its business risk profile over the medium term.

##### Weaknesses

- Moderate financial risk profile**

SVPL's financial risk profile is moderate, marked by moderate total outside liabilities to tangible networth (TOL/TNW) and debt protection metrics though partly supported by comfortable gearing (debt-to-equity). Its TOL/TNW levels are moderate at 2.23 times in FY2019 (Prov) against 2.87 times in FY2018; majorly owing to high creditors and payables. However, its gearing levels are comfortable at 0.58 times in FY2019 against 0.72 times in FY2018. The total debt of Rs.14.14 crore includes long term debt of Rs.0.07 crore, short term debt of Rs.9.58 crore and unsecured loans of 4.40 crore. It has reported moderate accruals of Rs. 2.13 crore over the same period. Its profitability levels are modest though stable at 0.94 per cent; lead to moderate debt protection metrics with net cash accruals to total debt (NCA/TD) and interest coverage ratio at 0.15 per cent and 1.67 times, respectively in FY2019 (provisional). The company reported net cash accruals of Rs. 2.13 crore in FY2019 (Prov). Acuité

expects the financial risk profile to improve over the medium term on account of improving revenue profile, no significant debt-funded capex plans and stable profitability though modest.

- **Moderate working capital operations**

SVPL's working capital is moderately managed as is reflected by its gross current asset (GCA) days of around 107 days as on March 31, 2019 (prov). The company maintains an inventory of around 30-40 days. It extends a credit period of around 30-34 days to its customers, but currently due to industry scenario the period has been increased to 45-50 days. As a result, the reliance on working capital limits is high, leading to high utilisation of its bank lines at an average of 88 per cent over the last five months through August 2019. Acuité expects the working capital management to remain efficient over the medium term on account of the limited credit period extended to its customers.

- **Susceptibility of operating margins to volatility in raw material prices**

The main raw material includes scrap and sponge iron and iron components, which are procured domestically. The price volatility of metals, combined with the limited ability of the company to pass on the changes in price movement to end customers, leads to susceptibility of margins to fluctuations in raw material prices.

#### **Key Rating Sensitivity Factors**

- Belongs to OPG Group enjoying the comfort of experienced team of management and financial flexibility
- Stretched working capital operations and liquidity

#### **Material Covenants**

None

#### **Liquidity Position**

The liquidity position of SVPL is stretched considering the stretch in working capital operations reflecting from high bank limit utilisation. The net cash accruals of SVPL have been reported at Rs. 2.13 crore during FY2019 (Prov). Its accruals are expected in the range of Rs.2.50 –3.50 crores, against which its obligations are minimal, and it is not planning for any significant debt funded capex. Its limits are highly utilised at 88 per cent during the last five months through August 2019. Acuité believes that, going forward, the liquidity position of the company will continue to remain adequate in the medium term on account cash accruals and absence any debt- funded capex.

#### **Outlook: Stable**

Acuité believes that SVPL will continue to benefit over the medium term supported by experienced management. The outlook may be revised to 'Positive', if SVPL demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to 'Negative', in case of any significant stretch in its working capital cycle, or large debt-funded capex leading to deterioration of its financial risk profile, particularly liquidity.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	194.91	147.92	150.63
EBITDA	Rs. Cr.	4.95	3.67	3.85
PAT	Rs. Cr.	1.38	8.46	1.19
EBITDA Margin	(%)	2.54	2.48	2.56
PAT Margin	(%)	0.71	5.72	0.79
ROCE	(%)	12.70	37.05	34.55
Total Debt/Tangible Net Worth	Times	0.58	0.72	1.28
PBDIT/Interest	Times	1.67	3.47	1.90
Total Debt/PBDIT	Times	2.70	1.21	3.11
Gross Current Assets (Days)	Days	107	152	207

#### **Status of non-cooperation with previous CRA**

None

### Any other information

Not Applicable

### Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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	9.25	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+ (Assigned)

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### About Acuité Ratings & Research:

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