

Press Release

Stesalit Limited

April 21, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.12.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.12.50 crore bank facilities of STESALIT LIMITED. The outlook is 'Stable'.

Himachal-based, Stesalit Limited (SL) was incorporated in 1981 is engaged in the manufacturing of products for Electric and Diesel Locomotives, Coaches, EMUs and Metro such as Transformers, Smoothing Reactors, Traction Motors, Coils, Alternator Mounted Rectifier, HVAC, Control Panels etc. Though the company is operational since 1981 it was taken over by new management in November, 2018 as it was under a resolution plan in National Company Law Tribunal (NCLT).

About the Group

The group consists of River Engineering Private Limited (REPL) and Stesalit Limited. Both the companies are referred as River Group and are engaged in manufacturing of products for Railways and Metro.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Stesalit Limited to arrive at this rating. The rating has been notched up for group support from River Group.

Key Rating Drivers

Strengths

- **Experienced management**

The management of Stesalit limited, Mr. Neeraj Jain, Mr. Arun Kumar Singal and Mr. Digambar Prasad Bhatt who are also part of the management of River Engineering Private Limited (Rated ACUITE BBB/Stable) have extensive experience in engineering industry. Further Stesalit Limited also derives benefit from centralized decision making of the group.

Acuite believes that the management's experience will continue to benefit SL over the medium term.

- **Funding support from promoters and REPL**

The company has received funding support in the form of equity capital from REPL and its promoters. Further, the promoters have also infused Rs.7.14 crore as on 31 March, 2019 in the form unsecured loans and is planning to take over the balance equity from existing shareholders in the near future. Going ahead, Acuite believes that the funding support from the group and promoters will be crucial for the company for timely servicing of debt obligations and maintain its credit risk profile.

Weaknesses

- **Customer concentration risk**

SL faces high customer concentration risk. As its order book position comprises orders majorly from Indian Railways. The high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers.

• **Nascent scale of Operations**

The company is yet to establish its operational track record under the new management. However, having an order book position of around Rs.80.00 crore gives moderate revenue visibility in the near future.

Rating Sensitivities

- Significant improvement in operating performance of the company leading to improvement in overall financial risk profile.
- Insufficient cash accruals leading to increase in borrowings and weakening of capital structure.

Material Covenants

None

Liquidity Position: Adequate

Company has adequate liquidity on account of unsecured loans being infused by the promoters. The cash accruals of the company are estimated to remain in the range of around Rs.3.19 crore to Rs.3.43 crore during FY2020-22. The average bank limit utilization for the last four months ended December 2019 remained ~59.50 percent. The current ratio stands at 2.10 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals and funding support from the promoters.

Outlook: Stable

Acuite believes SL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in revenues along with the operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its business risk profile, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	0.26	5.23
PAT	Rs. Cr.	(8.36)	(11.30)
PAT Margin	(%)	(3708.75)	(240.69)
PBDIT/Interest	Times	(24.50)	(399.74)
Total Debt/PBDIT	Times	(2.31)	(1.57)

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Group and parent support - <https://www.acuite.in/view-rating-criteria-47.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	12.00	ACUITE BB/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+

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About Acuité Ratings & Research:

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