

Press Release

Stesalit Limited

August 24, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs. 25.00 Cr. (Enhanced from Rs. 12.50 Cr)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' (read as ACUITE triple B minus) from '**ACUITE BB**' (read as ACUITE double B) and the short term rating to '**ACUITE A3**' (read as ACUITE A three) from '**ACUITE A4+**' (read as ACUITE A four plus) to the Rs. 25.00 crore bank facilities of Stesalit Limited(SL). The outlook is '**Stable**'.

Rationale for rating upgrade

The revision in rating is on account of better than expected operating performance of SL indicated by improvement in operating revenues of Rs. 61.82 Cr in FY2021(Prov.) as against Rs. 9.58 Cr in FY2020. The company has generated a revenue of Rs.12.39 Cr. in Q1FY2021 and has an order book position of Rs.43.20, thereby giving healthy revenues visibility for FY2022. The company has achieved operating profit margin of 8.69 per cent and net profit margin of 1.80 per cent in FY2021. The rating assigned also factors in moderate financial risk profile of the company marked by low gearing of 0.55 times as on 31st March 2021 and total outside liabilities to total net worth (TOL/TNW) of 0.82 times as on 31st March 2021(Prov.), moderate net worth at Rs. 41.99 Cr as on 31st March 2021(Prov.) and moderate debt-coverage indicators with Interest Coverage Ratio (ICR) of 1.80 times. Further, the rating also takes into account the extensive experience of management of around three decades in the engineering industry. The rating is constrained on account of working capital intensive nature of industry, significant customer concentration risk and highly competitive nature of engineering industry. Going forward, the ability of the company to further sustain its scale of operations along with the effective management of its working capital cycle and financial risk profile would be the key rating sensitivities

About the Company

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

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

Key Rating Drivers

Strengths

- **Experienced management**

Stesalit Limited (SL) 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. The management of Stesalit limited, Mr. Neeraj Jain, Mr. Rajeev Kumar Singhal and Mr. Rajat Kumar Sharma have extensive experience of over two decades in the engineering industry. The promoters have been able to leverage the extensive experience in engineering industry. Since the takeover of the company, there has been significant ramp up in the operations. The company has reported operating income of Rs. 61.82 Cr in FY2021(Prov.) as against Rs. 9.58 Cr in FY2020. Also, the company has already booked revenue of Rs. 12.39 Cr in Q1FY22 as against Rs. 2.18 Cr in Q1FY21. The company has current order book of Rs. 43.20 Cr. Additionally, the company is L1 on orders worth more than Rs.24.87 crore and also continuously bidding for new orders. Despite complete lockdown in April 2020 and partial lockdown subsequently in FY2021, the company has been able to achieve satisfactory turnover with EBITDA margin of 8.69% in FY2021 (Prov.) and Net Profit margin of 1.80% in FY2021 (Prov.). Acuité believes that the company will be benefitted over the medium term on the back of established presence in the engineering industry for about three decades.

- **Moderate Financial Risk Profile**

The financial risk profile of the company is moderate marked by moderate net worth, low gearing levels and moderate debt protection metrics and coverage indicators.

The net worth of the company is moderate at Rs. 41.99 crore as on March 31, 2021(Prov.). The company has followed a conservative financial policy in the past and the same is reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.55 times and 0.82 times respectively as on March 31, 2021(Prov.). Over the past three years the leverage levels have deteriorated marginally though continues to remain low at 0.55 times as on March 31, 2021(Prov.). The total debt of Rs. 23.15 crore as on 31 March 2021 comprised of long-term borrowings of Rs. 2.34 Cr, working capital borrowings of Rs. 19.75 Cr and current portion of long term debt of Rs. 1.07 Cr.

Moderate profitability has led to moderate debt coverage indicators of the company marked by debt-service-coverage-ratio and interest coverage ratio of 0.64 times and 1.80 times, respectively as on 31st March, 2021(Prov.).

Acuité believes that financial risk profile of the company is likely to remain moderate over the medium term, on account of low gearing and moderate debt protection metrics.

Weaknesses

- **Operations in highly competitive industry and Customer concentration risk**

The company is engaged in engineering business and the particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts and hence the firm has to make a bid for such tenders on competitive prices; which may affect the profitability of the firm. However, this risk is mitigated to an extent as the promoters are operating in this industry for years.

Also, 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. Out of the total revenue ~90 percent of the revenue comes from Railways.

- **Working Capital intensive nature of Operations**

SL operates in the working capital intensive nature of operations marked by Gross Current assets (GCA) of 367 days for FY2021(Prov.). This is on account of high debtors' days of 196 days as on 31 March 2021(Prov.). However, the debtor days were high on account of more than 50% of the total revenue was generated in Q4FY21. Further, Inventory days stood at 149 days as on 31 March 2021(Prov.) as against 1,257 days in the previous year. Current Ratio stood at 1.56 times as on 31st March 2021(Prov.) Further, the fund-based working capital limits are utilized at an average of ~55 per cent for the last nine months while.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of its high level of debtors at the year end.

Rating Sensitivity

- Significant improvement in operating performance of the company leading to improvement in overall financial risk profile
- Further elongation in working capital cycle
- Credit profile of River Engineering

Material Covenants

None

Liquidity position: Adequate

Stesalit Limited has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 2.52 crore for FY2021(Prov.) as against Rs. 1.07 crore of repayment obligations for the same period. The company has GCA days of 367 days for FY2021(Prov.) as against 1,377 days for FY2020. The company has unencumbered cash and bank balances of Rs. 4.56 crore as on 31st March 2021 (Prov.) Further, the fund-based working capital limits are utilized at an average of ~55 per cent in the last nine months while. Therefore, there are enough net cash accruals & limits available to utilize more funds if required to support incremental requirements.

Outlook: Stable

Acuité 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	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	61.82	9.58
PAT	Rs. Cr.	1.12	3.77
PAT Margin	(%)	1.80	39.40
Total Debt/Tangible Net Worth	Times	0.55	0.45
PBDIT/Interest	Times	1.80	3.41

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

None

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>
- 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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-Apr-2020	Cash Credit	Long term	12.00	ACUITE BB /Stable (Assigned)
	Bank guarantee	Short Term	0.50	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Value of the Issue (Rs. Crore)	Ratings/Outlook
UCO Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Upgraded)
UCO Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Upgraded)

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About Acuité Ratings & Research:

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