

Press Release

Stesalit Limited

December 15, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	35.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	3.00	-	ACUITE A3 Assigned
Bank Loan Ratings	5.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs.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**) to the Rs. 40.00 crore bank facilities of Stesalit Limited (SL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of **ACUITE A3'** (read as **ACUITE A three**) to the Rs. 10.00 crore bank facilities of Stesalit Limited (SL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating action reflects sustained operations and profitability for FY2022, healthy financial risk profile, adequate liquidity position, extensive experience of promoters and reputed clientele. Also the rating factors in comfort derived by healthy order book position. Moreover, the company has booked revenue of Rs. 71.51 Cr for six months ended September 2022. The rating is constrained by intensive working capital, tender based business and competitive industry.

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.

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.

Revenue and profitability

Post takeover of the company by the present management in November 2018, there has been significant ramp up in the operations. The company has reported operating income of Rs. 104.57 Cr in FY2022 as against Rs. 61.82 Cr in FY2021 (Rs. 9.58 Cr in FY2020). The company has an order book of Rs. 135.23 Cr and continuously bidding for new orders. EBITDA margin slight moderated and stood at 7.86% in FY2022 as against 8.75% in FY 21 and Net Profit margin stood at 2.76% in FY2021 as against 1.82% in FY 21.

Financial Risk Profile

The company has healthy financial risk profile marked by strong net worth and healthy debt protection metrics. The company's net worth stood at Rs. 44.38 Cr as on 31st March 2022 as against Rs. 42.49 Cr as on 31st March 2021. There has been slight improvement in gearing levels (debt-to-equity) from 0.55 times as on March 31, 2021 to 0.46 times as on March 31, 2022. Further, the interest coverage ratio stood at 2.04 times for FY2022 as against 1.79 times in FY2021. Debt service coverage ratio stood at 1.63 times in FY2022 as against 0.64 times in FY2021. Total outside liabilities to total net worth (TOL/TNW) stood at 0.90 times as on FY2022 vis-à-vis 0.87 times as on FY2021.

Weaknesses

Operations in highly competitive industry

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.

Working Capital intensive nature of Operations

Company operates in the working capital intensive nature of operations as evident from gross current assets (GCA days) of 246 days for FY2022 (PY 386 days) and WCC improved yet higher and stood at 100 days in FY22 (FY21- 271 days). Inventory days of 94 days as on 31 March 2022 as against 151 days in the previous year. Further, debtors' days stood high at 137 days as on 31 March 2022. Debtor days stood high i.e. more than 38% of the total revenue. As per the business trend the majority of revenue is booked in the last quarter of the financial year which was 45% for FY22 hence the debtor days remained high at the year end however the same gets realized in the next quarter of the subsequent fiscal.

Rating Sensitivities

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

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 4.32 crore for FY2022 as against Rs. 1.07 crore of repayment obligations for the same period. The company has unencumbered cash and bank balances of Rs. 0.80 crore as on 31st March 2022 Further, the fund-based working capital limits are utilized at an average of ~ 59 per cent in the last 12 months ended September 22. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	104.57	61.82
PAT	Rs. Cr.	2.88	1.13
PAT Margin	(%)	2.76	1.82
Total Debt/Tangible Net Worth	Times	0.46	0.55
PBDIT/Interest	Times	2.04	1.79

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>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Feb 2022	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
24 Aug 2021	Bank Guarantee	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
21 Apr 2020	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3 Assigned

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About Acuité Ratings & Research

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