

Press Release

Sanchit Exports Private Limited

September 29, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.9.80 crore
Long Term Rating	ACUITE BB/ Outlook:Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short term-rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.9.80 crore bank facilities of Sanchit Exports Private Limited (SEPL). The outlook is '**Stable**'.

Punjab based, Sanchit Exports Private Limited (SEPL) was incorporated in 1999, by Mr. Rakesh Gupta. The company is engaged in the manufacturing of hardware and hand tools. SEPL generates ~95 percent of its revenue from exports. The company exports majorly to the Middle Eastern countries such as Kuwait, Qatar, and UAE, to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SEPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SEPL was incorporated in 1999 by Mr. Rakesh Gupta, who is the managing director. Mr. Gupta has extensive experience of more than three decades in the iron and steel industry through his association with his family-owned Pensla Group of Industries. Over the years, SEPL has established relations with customers and suppliers in the industry.

Acuité believes that the company will continue to benefit through the promoters' industry experience and healthy relationships with customers and suppliers.

- **Above average financial risk profile**

The company has above-average financial risk profile marked by modest net worth, low gearing and above-average debt protection metrics. The net worth stood at Rs.4.76 crore (Prov) as on 31 March, 2020 as against Rs.4.34 crore on 31 March, 2019.

The company has followed a conservative financial policy in the past; the same is reflected through its gearing levels of 1.22 times as on March 31, 2019. The gearing deteriorated marginally to 1.45 times (Prov) as on March 31, 2020. Total outside liabilities to tangible net worth (TOL/TNW) stood at 3.21 times (Prov) as on 31 March 2020 as against 3.31 times as on 31 March 2019.

The company, on the other hand generated cash accruals of Rs.0.81 crore (Prov) in FY2020 as against Rs.1.05 crore in FY2019. The profitability levels coupled with debt levels, has led to above-average debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were healthy at 0.12 times (Prov) and 2.21 times (Prov), respectively.

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

Weaknesses

- **Working capital intensive nature of operations**

The company's working capital management is intensive marked by its gross current asset (GCA) days of around 147 days (Prov) in FY2020 as against 111 days in FY2019. The company has maintained an inventory holding period of 21 days (Prov) as on 31 March, 2020 as against 18 days as on 31 March, 2019. The debtor days remained around 92 (Prov) in FY2020 as against 45 days in FY2019.

Acuité expects the working capital management of the company to remain intensive over the medium term on account of its stretched debtor collection period.

- **Highly competitive and fragmented nature of industry**

The company operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company. However, the risk is mitigated to an extent due to the long track record of operations.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Stretch in the working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity, marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.81 crore (Prov) for FY2020, with debt repayment obligations of Rs.0.03 crore (Prov) for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.0.60 crore to Rs.0.99 crore during FY2021-23 against no major debt repayment obligations in the same period. The firm's working capital operations are intensive, marked by GCA of 147 days (Prov) for FY2020. The average bank limit utilization over the past six months ended July 2020 remained low at around ~51.56 percent. The current ratio stood at 1.36 times (Prov) as on 31 March, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against its debt repayments over the medium term.

Outlook: Stable

Acuité believes that SEPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in the operating margins, thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	44.43	53.85
PAT	Rs. Cr.	0.42	0.57
PAT Margin	(%)	0.93	1.05
Total Debt/Tangible Net Worth	Times	1.45	1.22
PBDIT/Interest	Times	2.21	2.76

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>
- 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 (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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Assigned)
FDBP/FUDBP/BD	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4+ (Assigned)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB/Stable (Assigned)

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About Acuité Ratings & Research:

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