

Press Release

Grip Strapping Technologies Private Limited

December 02, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and assigned the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 50.00 crore bank facilities of Grip Strapping Technologies Private Limited (GSTPL). The outlook is '**Stable**'.

Incorporated in 2005, GSTPL is engaged in the manufacturing of High Tensile Steel Strappings, Seals, Packaging Tools and accessories. Its manufacturing facility is in Hyderabad, Telangana, with an installed capacity of 24,000 tonnes per annum (TPA) of steel strappings. The day to day operations are managed by the promoters' Mr. A. Narasimhan, Mr Hemant Lajpal and Mr. M. Mani. CYKLOP ASIA PTE. LTD is the holding company; holds 51 percent shareholding.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of GSTPL to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of promoters and Strong parentage**

GSTPL is a subsidiary of the Cyklop Group, Germany, one of the leading global players in the packing systems and materials. GSTPL inherent business strengths gained through the long track record and technical expertise of the promoters - Mr. A. Narasimhan, Mr Hemant Lajpal and Mr. M. Mani, who have over 2 decades of experience in the packing machinery industry. This helped GSTPL to build a healthy relationship with its suppliers and customers. Its clientele includes reputed entities like Tata Steel Limited, Steel Authority of India Limited, Saint Gobain India Pvt Ltd, Jindal United Steel Limited, Mahalaxmi Industries Services, MPIL Steel Structure Limited, Bhushan Power & Steel Limited, amongst others. The aforesaid factors have aided GSTPL in reporting a compounded annual growth rate (CAGR) of 15 percent in the past four years ending FY2020 (provisional) with revenue of Rs.165 Cr in FY2020. Acuite believes that GSTPL will continue to benefit from the established track record, experienced promoters over the medium term.

- Above-average financial risk profile**

GSTPL's financial risk profile is above-average marked by comfortable capital structure and above-average debt protection metrics. GSTPL's net worth is moderate at Rs. 29.61 Cr as on March 31, 2020 (provisional) as compared to Rs.26.74 crore as on March 31, 2019. Gearing is comfortable at 0.86 times as on March 31, 2020 (provisional) as against 1.23 times as on March 31, 2019. TOL/TNW stood at 1.85 times as on March 31, 2020 (provisional) as against 2.34 times as on March 31, 2019. Moderate net cash accruals lead to moderate NCA/TD and interest coverage ratio of 0.16 times and 2.17 times in FY2020 (provisional) vis-à-vis 0.20 times and 3.26 times in FY2019, respectively. GSTPL reported cash accruals of Rs.4.00 Cr to 6.50 Cr during last 3 years ended through FY2020 (provisional) as against repayment obligations of about Rs.0.11 Cr to 0.12 Cr during the same period. It's cash accruals are expected in the range of Rs.5-6 Cr over the medium term against negligible repayment obligations of about Rs.0.10-0.12 Cr during the same period. Additionally, the company continues to maintain healthy cash and bank balances of approx. Rs. 6.53 Cr (hope this is unencumbered, please mention) as of March 31, 2020).

Acuite believes that with moderate accruals and no significant debt-funded capex plans; the financial risk profile is expected to remain above-average over the medium term.

Weaknesses

• Working capital-intensive operations

GSTPL's business is working capital intensive, as reflected in its gross current assets (GCAs) of 162 days as on March 31, 2020 (provisional) as against 161 days as on March 31, 2019. It was primarily driven by stretched receivables and moderate inventory levels of 101 days and 42 days, respectively, as on March 31, 2020 (provisional) vis-à-vis 89 days and 54 days, respectively, as on March 31, 2019. Working capital requirement is partly offset by creditors of 81 days as on March 31, 2020 (Provisional) as against 76 days as on March 31, 2019). Its bank Limits are utilised at 81 percent over the past six months ended through September 2020. Acuite believes that GSTPL's operations will remain working capital intensive over the medium term.

• Susceptibility of profitability to volatility in raw material prices

GSTPL's raw materials and consumables (majorly steel) account for over 70-75 percent of its product cost. Thus, GSTPL's profitability margins are exposed to fluctuation in o steel prices which are commoditized in nature.. The operating margins have been declining Y-o-Y from 7.59 per cent in FY2018 to 5.50 per cent in FY2020 (provisional). Acuite believes that GSTPL's operating margins shall remain exposed to raw material price movements.

Liquidity Position: Adequate

GSTPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. GSTPL reported cash accruals of Rs.4.00 Cr to 6.50 Cr during last 3 years ended through FY2020 (provisional) as against repayment obligations of about Rs.0.11 Cr to 0.12 Cr during the same period. Its cash accruals are expected in the range of Rs.4-6 Cr over the medium term against negligible repayment obligations, please mention the range mentioned above during the same period. GSTPL's working capital operations are working capital intensive as evident from Gross Current Assets (GCA) of 126-166 days historically ended with FY2020 (provisional). Current ratio is comfortable at 1.39 times as on 31, March 2020. Its bank limits are utilised about 81 percent during the past 6 months through September 2020. Please mention about cash and bank balance here also. Acuite believes that the liquidity is expected to be adequate in the absence of any significant debt-funded capex plans over the medium term.

Rating Sensitivities

- Higher-than-expected revenues and profitability margins
- Improvement in working capital cycle leading to better liquidity position

Outlook: Stable

Acuite believes that GSTPL will maintain 'Stable' outlook over the medium term on account of a long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the Company registers higher-than-expected growth in its revenues and profitability or further improves its capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case GSTPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	165.59	176.44
PAT	Rs. Cr.	2.87	5.44
PAT Margin	(%)	1.73	3.09
Total Debt/Tangible Net Worth	Times	0.85	1.23
PBDIT/Interest	Times	2.17	3.26

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

GSTPL has not cooperated with Brickwork Rating India Private Limited, which has classified the company as non-cooperative through a release dated July 10, 2020. The reason provided by Brickwork Rating is non-furnishing of information for monitoring of ratings.

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB-/Stable (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.30	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE BBB-/Stable (Assigned)

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