Press Release
GRIP STRAPPING TECHNOLOGIES PRIVATE LIMITED
June 08, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	51.23	ACUITE BBB- | Stable | Reaffirmed	-
Bank Loan Ratings	23.00	-	ACUITE A3 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	74.23	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **Acuité BBB- (read as Acuité t riple B minus)** and its short-term rating of **Acuité A3 (read as Acuité A three)** on the Rs. 74.23 crore bank facilities of Grip Strapping Technologies Private Limited (GSTPL). The outlook is '**stable'.**

Rationale for reaffirming the rating:
The rating considers the improving operating performance of GSTPL, marked by improved revenue and range-bound operating margins. The company's revenue recorded 18 percent YOY growth during FY23 (provisionals), as it stood at Rs. 305.72 crore as against Rs. 259.64 crore in FY22. The operating margins ranged between 4% and 5.05% during the last three years, ending March 31, 2023. The ratings are, however, constrained by the moderate working capital intensity and vulnerability of profitability to volatility in raw material prices. Furthermore, in December 2022, GSTPL completed capex to enhance its production capacity to 48000 MTPA from 24000 MTPA. Going forward, the company's ability to scale up its production activities through efficient utilisation of enhanced capacity while improving operating margins and working capital operations will be a key rating to monitor.

About the Company

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 MTPA. As of December 2022, with the installation of additional capacity in the strapping plant, the annual production capacity of the company had improved to 48,000 MTPA. The day-to-day operations are managed by the promoters, Mr. A. Narasimhan, Mr. Hemant Lajpal, and Mr. M. Mani.

Analytical Approach

Acuité 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 established relationships with reputed

clients:
GSTPL is an associate of the Cyklop Group, Germany, one of the leading global players in packing systems and materials. GSTPL's inherent business strengths are 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 two decades of experience in the packing machinery industry. This helped GSTPL 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, and Bhushan Power & Steel Limited, among others. Acuité believes that GSTPL will continue to benefit from its established track record and experienced promoters over the medium term.

Improving operating performance
GSTPL revenues have recorded an increasing trend since the last 2 years; the company reported revenue of Rs. 305.72 crore in FY2023, compared to Rs. 259.64 crore in FY22 and Rs. 175.01 crore in FY21. This significant growth in revenue was contributed by higher volumes and healthy realisation rates during the past 2 years. The operating margins remain range-bound during this period, as the company recorded operating margins of 5.06 percent in FY23 (provisionals) against 4.00 percent in FY22 and 5.04% in FY2021.
In order to expand its activities, the company has purchased an existing manufacturing plant located in Visakhapatnam, Andhra Pradesh, by way of auction bid for a total cost of Rs. 36.00 crore. The said unit achieved its DCCO in December 2022 and has increased the annual production capacity of GSTPL to 48000 MTPA from 24000 MTPA. This new plant is expected to be operational at 40–50 percent of its capacity during FY24. With this additional manufacturing capacity, GSTPL's ability to scale up its operations and improve its profitability margins will remain a key monitorable aspect.

Moderate financial risk profile:
The financial risk profile of the company is moderate, marked by a moderate capital structure and average debt protection metrics. The net worth of the company stood at Rs. 48.45 crore as of March 31, 2023 (provisionals), compared to Rs. 35.37 crore during the previous year. The improvement is on account of the healthy accretion of net profit in the reserves during the period and the issue of right shares worth Rs. 4.44 crore. With the subscription of this right issue by other investors, the holding of Cyklop Asia Pte. Ltd. was reduced to 25.5% as of March 31, 2023. The company's gearing level (debt-equity) has improved to 1.47 as of March 31, 2023 (provisionals), compared to 1.77 as of March 31, 2022. The debt protection metrics of the company are moderate, with the interest coverage ratio and debt service coverage ratio at 1.90 times and 1.46 times, respectively, as of March 31, 2023 (provisionals), compared to 1.96 times and 1.16 times, respectively, in the previous year. Total outside liabilities to tangible net worth stood at 2.58 times as of March 31, 2023 (provisionals), compared to 2.42 times in the previous year. Debt to EBITDA is improved but high at 4.51 times as of March 31, 2023 (provisionals), compared to 5.72 times as of March 31, 2022. Going forward, the financial risk profile of the company is expected to remain moderate in the absence of any debt-funded capex plan.

Weaknesses

Moderately intensive working capital operations:
The working capital operations of the company are moderately intensive, which is evident from the gross current asset (GCA) days of 148 during FY23 (provisional). This was mainly driven by stretched receivables and moderate inventory levels of 73 and 45 days during FY23 (provisionals). The creditor days stood at 71 days in FY2023 (provisionals) as against 34 days in FY22. This overall scenario has led to moderately high utilisation of fund-based limits at 80 percent during FY23.

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 costs. Thus, GSTPL's profitability margins are exposed to fluctuations in steel prices, which are commoditized in nature. However, over the last three years, the company has

maintained its operating margins in the range of 4-5.05 percent until FY2023.

Rating Sensitivities

- Scaling up production operations and improving profitability.
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material covenants

None

Liquidity Position : Adequate

GSTPL has adequate liquidity, marked by sufficient net cash accruals against its maturing debt obligations, albeit moderately intensive working capital operations. GSTPL reported cash accruals of Rs. 5.80 as of March 31, 2023 (provisionals) against the repayment obligation of Rs. 1.38 crore. The company is expected to generate cash accruals in the range of Rs. 12 crore to Rs. 14 crore against obligations in the range of Rs. 2.9 crore to 3.5 crore during the medium term. The working capital operations of the company are moderately intensive, which is reflected by its GCA days of 148 as of March 31, 2023 (provisionals) and its current ratio of 1.36 times. The company's liquidity is expected to be adequate in the medium term on account of healthy accruals. Going forward, the company's liquidity position is expected to be adequate on account of sufficient cash accruals against repayment obligations and an improving scale of operations.

Outlook: Stable

Acuité believes that GSTPL will maintain a 'stable' outlook over the medium term on account of its 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, any significant stretch in its working capital management, or larger-than-expected debt-funded capital expenditure, leading to a deterioration in its financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	305.72	259.64
PAT	Rs. Cr.	4.19	3.02
PAT Margin	(%)	1.37	1.16
Total Debt/Tangible Net Worth	Times	1.47	1.77
PBDIT/Interest	Times	1.90	1.96

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

GSTPL has not cooperated with Crisil Ratings & Brickwork Ratings, which has classified the company as non-cooperative through a release dated November 21, 2022 and November 17, 2022 respectively. The reason provided by Crisil Rating & Brickwork Rating is non-furnishing of information for monitoring of ratings.

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
• Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Complexity Level Of Financial Instruments: https://www.acuite.in/view-rating-criteria-55.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. Acuite' 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
06 Apr 2022	Letter of Credit	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB- | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	7.00	ACUITE BBB- | Stable (Assigned)
	Bills Discounting	Short Term	6.00	ACUITE A3 (Assigned)
	Packing Credit	Long Term	5.00	ACUITE BBB- | Stable (Reaffirmed)
	Letter of Credit	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BBB- | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.43	ACUITE BBB- | Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	3.30	ACUITE BBB- | Stable (Reaffirmed)
02 Dec 2020	Working Capital Demand Loan	Long Term	3.30	ACUITE BBB- | Stable (Assigned)
	Packing Credit	Long Term	5.00	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BBB- | Stable (Assigned)
	Proposed Bank Facility	Long Term	0.70	ACUITE BBB- | Stable (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 | Reaffirmed
Canara Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A3 | Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE BBB- | Stable | Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A3 | Reaffirmed
Canara Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- | Stable | Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.23	ACUITE BBB- | Stable | Reaffirmed

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About Acuité Ratings & Research
Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.