

Press Release

Spartan Engineering Industries Private Limited

December 31, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 52.00 Cr.
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 plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four Plus**) on the Rs. 52.00 crore bank facilities of Spartan Engineering Industries Private Limited (SEPL). The outlook is '**Stable**'.

Mumbai-based Spartan Engineering Industries Private Limited (SEPL), was incorporated in 1988. The company is engaged in the manufacturing and trading of construction equipment and machines. It sells products in India and abroad sold under the various established brands like 'Spartan', 'Sky Plus', 'Elite Aviator' and 'Hercules'. The directors of the company are Mr. Mahendra Pranjivandas Mehta, Mr. Vikram Mahendra Mehta and Mrs. Hiral Vikram Mehta. The manufacturing facility is located at Atgaon near Nashik.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone business and financial risk profiles of Spartan Engineering Industries Private Limited (SEPL).

Key Rating Drivers

Strengths

- **Experienced management and establish track record of operations**

SEPL has establish presence since 1998 and promoted by Mr. Mahendra Mehta, company started its manufacturing operations in 2006. Mr. Mahendra Mehta, a mechanical engineer by profession, is the founder and chairman of the company possess over four decades of experience in the industry. His son, Mr. Vikram Mehta, currently handles the overall business operations and possess over a decade experience in same line of business. The company is well supported by second line of Management. The company markets its construction equipment under the brand names 'Spartan', 'Sky Plus', 'Elite Aviator' and 'Hercules', which enjoy moderate market recognition. It has established longstanding relationships with many reputed customers and suppliers which facilitate favourable pricing terms as well as ensures timely delivery. However, the company's ability to procure raw materials at competitive prices and to pass on any adverse fluctuations in the same to customers continues to be a key determinant of profitability. Acuité believes the company to benefit from established market position and experienced promoters over medium to long term.

- **Geographically well diversified and reputed clientele**

The company has pan India presence through branches and distributors, also exports to Sri Lanka, Nepal and Dubai. SEPL has branch offices in Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Noida and Pune. The company also has warehouses at specific location to meet immediate orders. Also, SEPL's domestic customer profile includes some large players from the real estate and construction industries like Larsen & Toubro Ltd., Tata Projects, Shapoorji Pallonji and Oberoi Realty to name few which reduces counterparty risk and assure recurring flow of orders.

Acuité believes longstanding relationship of more than a decade with reputed customers and suppliers ensures regular flow of orders and steady supply of raw materials.

Weaknesses

• Average financial risk profile

The financial risk profile of SEPL have remained average marked by net worth of Rs. 16.40 crore as on 31 March, 2020 as against Rs. 13.99 crores as on 31 March, 2019. The gearing (debt/equity) stood at 2.93 times as on 31 March, 2020 as against 3.04 times as on 31 March, 2019. The total debt of Rs. 48.12 crore outstanding as on 31 March, 2020 comprises long term loan from bank of Rs.17.62 crore, unsecured loans of Rs.0.52 crores and Rs.29.99 crore as a working capital borrowing from the bank. The moderate profitability coupled with high gearing levels have resulted in modest debt protection metrics with interest coverage of 1.28 times as on March 31, 2020 as against 1.74 times as on March 31, 2019. TOL/TNW ratio remained high and improved at 4.84 times as on March 31, 2020 as against 5.45 time as on March 31, 2019 on account of higher working capital borrowings and trade payables. NCA/TD stood at 0.03 times as on March 31, 2020 as against 0.11 times as on March 31, 2019. DSCR stood at 1.06 times as on March 31, 2020 as against 1.39 times as on March 31, 2019. Further, impact on financial risk profile is observed due to pandemic and slowdown in demand in end user industry. Acuité believes company's ability to improve its financial risk profile and liquidity over near to medium term remains key deliverable.

• Working intensive nature of operations

The working capital cycle of the company has remained intensive marked by high Gross Current Assets (GCA) of 381 days in FY2020 and 302 days in FY2019. The GCA days is marked by moderate elongation in receivables and higher inventory holding in FY2020 over FY2019. The debtor days stood at 132 days in FY2020 as against 114 days in FY2019. The inventory holding period stood high at 215 days in FY2020 as against 163 days in FY2019. The average bank limit utilisation stood high at 98.06 percent for the last six months ended October, 2020. The inventory is high as company has to maintain stock of 3 to 4 months in hand to cater to regular flow of orders. The receivables terms remain in the range of 90 - 120 days. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

• Exposure to the cyclicalities associated with end user industry and economic slowdown

The construction equipment industry, wherein SEPL operates, is characterised by intense competition both from unorganised players as well as organised and multinational manufacturers. Though construction equipment industry being a niche and a low profile segment demand is depend on end user industry like real estate and infrastructure industry which is currently under stress due to pandemic. The COVID-19 crisis has not only affected the under-construction real estate projects, and overall housing supply, but also had a decimating effect on the construction equipment businesses across the country. Also, the company's operating scale remains range bound despite it having been operational for over two decade. Also, operating scale over the last few years remained affected owing to various factors, including stiff competition that has heightened its vulnerability to adverse economic and demand conditions and cyclicalities.

Liquidity Position: Adequate

SEPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.50 to Rs.5.26 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.1.15 - 1.70 crore over the same period. The cash accruals of the company are estimated to remain around Rs.2.50-4.00 crore during 2021-23, while its repayment obligations are expected to be Rs.1.40-2.60 crore over the same period. The cash credit limit of remains utilized at 98.06 percent for the last six months ended October, 2020. The company maintains unencumbered cash and bank balances of Rs. 3.87 crore as on March 31, 2020. The current ratio of the company stood moderate at 1.36 times as on March 31, 2020.

Rating Sensitivities

- Decline in scale of operations and margins
- Elongation in working capital cycle and stress on liquidity profile
- Deterioration in overall all financial risk profile and debt protection metrics

Outlook: Stable

Acuité believes that SEPL will maintain a 'Stable' outlook and continue to benefit over the medium term from its experienced management and healthy relations with reputed clientele. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues while improving its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, leading to further deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	80.38	94.09
PAT	Rs. Cr.	0.26	2.62
PAT Margin	(%)	0.32	2.78
Total Debt/Tangible Net Worth	Times	2.93	3.04
PBDIT/Interest	Times	1.28	1.74

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

ICRA vide its press release dated 04, March, 2020 has migrated Spartan Engineering Industries Private Limited's to the non-cooperating category and withdrawn. The rating appear as 'ICRA B+/ ICRA A4 (Issuer not cooperating; Withdrawn)' on the rating agency's website.

Any other information

None

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BB+/Stable (Assigned)
Term loans	Not Available	Not Available	Not Available	1.61	ACUITE BB+/Stable (Assigned)
Term loans	Not Available	Not Available	Not Available	5.60	ACUITE BB+/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ (Assigned)

Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.79	ACUITE BB+/Stable (Assigned)
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About Acuité Ratings & Research:

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