

Press Release

Spartan Engineering Industries Private Limited

March 24, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.00	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	38.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	52.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

Rationale for Rating Reaffirmation

The Rating is reaffirmed on account of consistent business and financial performance of SBT. The company has done a revenue of Rs.92.77 crore in FY2021 as against Rs.80.38 crores in FY2020. In 10MFY2022, it has generated income of Rs.90.87 Cr and is expected to close year at ~Rs125 Cr. The financial risk profile continues to be average and the operations working capital intensive. The Company has no major debt funded capex plan for the medium term.

About the Company

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 under various brands namely '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. SEIPL's manufacturing facility is located at Atgaon near Nashik.

Analytical Approach

For arriving at the rating, Acuite 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

Incorporated in 1988, SEIPL is promoted by Mr. Mahendra Mehta and family. The company started its manufacturing operations in 2006. Mr. Mahendra Mehta, a mechanical engineer by profession, is the founder and chairman of the company and possesses 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 that the company will continue benefitting from its experienced management and established track record of operations over the medium term.

- **Geographically diversified operations and reputed clientele**

The company has pan India presence through branches and distributors. It has branch offices in Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Noida and Pune. SEIPL also exports to Sri Lanka, Nepal and Dubai. And has warehouses at specific location to meet immediate orders. 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. Majority of the top ten customers and suppliers of SEPL have been associated with it for more than a decade.

Acuité believes that SEPL will continue to benefit from its geographically well diversified operations and reputed clientele over the medium term.

Weaknesses

- **Below Average financial risk profile**

SEIPL continues to have a below average financial risk profile marked by moderate net worth, high gearing and modest debt protection measures. The net worth stood at Rs.13.17 Cr as on March 31, 2021, as against Rs.11.77 Cr as on March 31, 2020. The improvement is on account of accretion of profits to reserves. The Company' total debt of Rs.59.33 crore as on March 31, 2021 (Rs.52.75 crore as on March 31, 2020) and includes term loans of Rs.27.29 crore and unsecured loans from promoters and directors of Rs.4.13 crore and short term borrowings of Rs.27.90 Cr. The company' overall gearing stood high at 4.50 times as on March 31, 2021 as against 4.48 times as on March 31, 2020. The total outside liabilities to tangible net worth stood at 7.61 times as on March 31, 2021 as against 7.13 in March 31, 2020. overall debt protection metrics have remained modest during the period. On account of improved profitability during the year, the interest coverage ratio (ICR) improved to 1.40 times for FY2021 as against 1.28 for FY2020. The debt service coverage ratio (DSCR) and NCA to Total Debt have remained constant at 1.06 times and 0.03 times respectively for FY2021 as in FY2020 on account of increase in total debt

Acuite expects that in the absence of any major capex plan, the financial risk profile of the SEIPL will continue to be remain below average.

- **Working intensive nature of operations**

SEIPL's operations continue to remain working capital intensive in nature marked by high Gross Current Assets (GCA) of 385 days as on March 31,2021 which as against 381 days as on March 31,2020. The GCA days are driven by high inventory and debtor days. SEIPL's inventory

days stood at 157 days as on March 31, 2021 as against 215 days as on March 31, 2020. The debtor days increased to 190 days as on March 31, 2021 from 132 days in FY2020. The fund based working capital limits remain utilised at an average of 98.2 percent for last 6 months ending January, 2022. The Company's creditor days 196 days as on March 31, 2021 as against 202 days as on March 31, 2020.

Acuite believes that further elongation in SEIPL working capital cycle will be a key rating monitorable.

- **Competitive Industry and exposure to the cyclicity associated with end user industry**

The construction equipment industry is characterised by intense competition both from unorganised players as well as organised and multinational manufacturers. Further this industry is significantly dependent on end user industries namely real estate and infrastructure industry. SEIPL's operating scale remains range bound. The modest scale of operations limits SEIPL's bargaining powers with its customers and make its vulnerable to adverse economic cycles.

Rating Sensitivities

- Further elongation in working capital cycle and stress on liquidity profile
- Deterioration in overall all financial risk profile and debt protection metrics

Material covenants

None

Liquidity Position: Stretched

The company generated Net Cash Accruals (NCA) of Rs.1.96 Cr in FY2021 and Rs.1.54 in FY2020 while the debt repayment obligations ranged between Rs.1.18-1.46 Cr during the same period. The cash accruals of the company are expected to remain in the range of Rs. 5-11 Cr. for the FY2022-23 period against debt repayment obligations of ~Rs. 3-6 Cr during the 2021-22 period. The average utilisation of fund based working capital limits remained highly utilised at approximately ~98.2 percent for the trailing 6 month period until January 2022. The company maintained unencumbered cash and bank balances of Rs.5.28 crore as on March 31, 2021. The current ratio of the company stood at 1.38 times as on March 31, 2021 which is almost at par with the previous year.

Outlook: Stable

Acuite believes that SEIPL 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, capital structure 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	92.77	80.38
PAT	Rs. Cr.	0.90	0.26
PAT Margin	(%)	0.97	0.32
Total Debt/Tangible Net Worth	Times	4.50	4.48
PBDIT/Interest	Times	1.40	1.28

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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Dec 2020	Term Loan	Long Term	1.61	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	5.60	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BB+ Stable (Assigned)
	Proposed Bank Facility	Long Term	2.79	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BB+ Stable Reaffirmed Stable
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.79	ACUITE BB+ Stable Reaffirmed Stable
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.61	ACUITE BB+ Stable Reaffirmed Stable
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.60	ACUITE BB+ Stable Reaffirmed Stable

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.

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