

## Press Release

### Spartan Engineering Industries Private Limited

May 03, 2023



### Rating Reaffirmed

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

### 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 (SEIPL). The outlook is '**Stable**'.

#### Rationale for Rating Reaffirmation

The Rating is reaffirmed on account of SEIPL's consistent improvement in business and financial performance. The improvement in the business performance is reflected through the increase in scale of operation in FY2022 of Rs.130.67 Cr as compared to Rs.92.77 Cr in FY2021. The operating margins of the company reduced to 8.30 percent in FY2022 as compared to 11.09 percent in FY2021 as the input cost was high and also the pandemic affected the operations to an extent. Though, the PAT margins improved to 1.86 percent in FY2022 as against 0.97 percent in FY2021. In FY2023 (Prov), the company has generated income of Rs.176 Cr. Further, the operating margins is expected to remain in the range of 11-12 percent over the medium term. Also, the financial risk profile continues to be moderate marked by moderate net worth, moderate gearing, and modest debt protection metrics. The above mentioned rating strengths are partially offset by SEIPL's working capital intensive operations, competitive industry and exposure to the cyclicity associated with end user industry.

#### About the Company

Mumbai-based Spartan Engineering Industries Private Limited (SEIPL), 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 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 (SEIPL).

## 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.

#### >Moderate financial risk profile

The financial risk profile of the company stood moderate marked by moderate net worth, moderate gearing, and modest debt protection metrics. The tangible net worth stood at Rs.15.62 crore as on 31 March 2022 as against Rs.13.17 crore as on 31 March, 2021. The improvement is on account of accretion of profits to reserves. The total debt of the company stood at Rs.59.81 crore which includes Rs.25.56 crore of long-term debt, Rs.3.28 crore of CPLTD, Rs.5.47 crore of Unsecured loans and Rs.25.51 crore of short-term debt as on 31 March, 2022. The gearing (debt-equity) stood moderate at 3.83 times as on 31 March 2022 as compared to 4.50 times as on 31 March, 2021. Interest Coverage Ratio stood at 1.60 times for FY2022 as against 1.40 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.04 times in FY2022 as against 1.06 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 7.13 times as on 31 March, 2022 as against 7.61 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.06 times for FY2022 as against 0.03 times for FY2021.

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

#### >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. SEIPL'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 SEIPL have been associated with it for more than a decade.

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

### Weaknesses

#### >Working intensive nature of operations

SEIPL's operations are working capital intensive in nature marked by high Gross Current Assets (GCA) of 293 days as on March 31, 2022, as against 385 days as on March 31, 2021. SEIPL's inventory days stood at 112 days as on March 31, 2022, as against 157 days as on March 31, 2021. The debtor days stood at 160 days as on March 31, 2022, as against 190 days as on March 31, 2021. The average credit period allowed to customers is 90 days. The creditor days stood at 158 days as on March 31, 2022, as against 196 days as on March 31, 2021. The average credit period allowed by suppliers is 90-120 days. The fund based working capital limits remain utilized at an average of 97 percent for the last 06 months ending February 2023. The non-

fund-based limits too remain fully utilized generally.

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 Adequate**

The company's liquidity position is adequate, marked by sufficient net cash accruals against its maturing debt obligations. The company generated net cash accruals of Rs.1.54-Rs.3.87 Crore from FY2020-22 against the matured debt obligations of Rs.1.46-Rs.3.48 in the same period. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.11.04-24.74 crore over the medium term against expected matured debt obligations of Rs.4.98-6.18 crore during the same period. The working capital management of the company is intensive marked by GCA days of 293 days in FY2022 as against 385 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.1.66 crore as on March 31, 2022. The current ratio stands at 1.36 times as on March 31, 2022 as against 1.38 times as on March 31, 2021. The average utilization of fund based working capital limits remained highly utilized at approximately 97 percent for the trailing 6-month period until February 2023, while the non-fund-based facilities remain utilized at 100~ percent.

Acuite believes that the liquidity of SEIPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations

### **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.

### **Other Factors affecting Rating**

None

### **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	130.67	92.77
PAT	Rs. Cr.	2.43	0.90
PAT Margin	(%)	1.86	0.97
Total Debt/Tangible Net Worth	Times	3.83	4.50
PBDIT/Interest	Times	1.60	1.40

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

India Ratings vide its press release dated 3.6.2022, had rated the company to IND BB+/A4+; Issuer Not Cooperating.

**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**

In order to inform the investors about complexity of instruments, Acuite 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](http://www.acuite.in).

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Mar 2022	Cash Credit	Long Term	28.00	ACUITE BB+   Stable (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	2.79	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	5.60	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	1.61	ACUITE BB+   Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE BB+   Stable   Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.79	ACUITE BB+   Stable   Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.61	ACUITE BB+   Stable   Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.60	ACUITE BB+   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.

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