

Press Release
ELEC STEEL PROCESSING INDUSTRIES PRIVATE LIMITED
February 15, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.13	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	20.75	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	64.88	-	-

Rating Rationale

Acuite has assigned its long-term rating of ACUITE BBB-(read as ACUITE triple B minus) and its short term rating of 'ACUITE A3' (read as ACUITE A three) on the Rs.64.88 crore bank facilities of Elec Steel Processing Industries Private Limited (ESPIPL). The outlook is 'Stable'.

Rationale for the Rating

The rating assigned takes into consideration the augmented business risk profile witnessing improvement year on year, primarily due to high demand in the infrastructure and power sector led by power supply requirements throughout the nation. ESPIPL clocked revenues of Rs.140.16 crores in FY23; as against Rs.91.88 crores in FY22 with a year on year growth of 52.5% and Rs.111.62 crores (Prov.) for H1FY24; backed by increasing demand and increasing export business. The company also has renowned clientele with relations in India as well as Oman & Canada. The rating also draws comfort from the established operations and experience of the company.

The rating is constrained over moderate financial risk profile of the company reflected by low net worth despite having a vintage experience. The working capital operations of the company also remained intensive led to high reliance towards its bank limits. Acuite also takes note of the company's ongoing capex towards enhancing its existing production capacity by 15% to cater to the rising order book.

About the Company

ESPI is engaged into manufacturing of transformer laminations made from grain oriented electrical steels (iron-silicon alloys) which provides low core loss and high permeability needed for electrical transformers. ESPI also manufactures toroidal cores for metering transformers. ESPI imports cold-rolled grain oriented silicon steel (CRGO) and cold-rolled non-grain oriented silicon steel (CRNGO) sheets.

ESPI, got converted into a private limited company in September 2022; named "Elec Steel Processing Industries Pvt Ltd". The company has 4 operational plants situated in Vadodara, Gujarat. Out of which, 2 plants situated in GIDC Vadodara, would be shifted to the new location at Vadodara itself; in the ongoing debt funded capex to enhance the production capacity and reduce the turnaround time. One of the four plants is exclusively set up to cater to the requirements of Hitachi Energy India Ltd. The plants situated in GIDC which are to be relocated, would be used as warehouses after completion of ESPIPL's capex plan.

ESPIPL is currently promoted by Mr. Harshad Bagadia & Mr. Paras Bagadia.

Acuité has considered standalone business and financial risk profile of ESPIPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and vintage relation with renowned clients

Elec Steel Processing Industries Pvt Ltd; previously being operational as a partnership firm since 1971, converted into a private company in FY23. The company is engaged in the business of transformer lamination and the key promoters have an experience of over 5 decades in the industry. ESPIPL also has vintage relations with renowned clients such as Hitachi energy India Ltd, Federal Transformers & Switchgears LLC (Canada), Jayco Electricals to name a few.

Augmented business risk profile

ESPIPL has witnessed year on year growth backed by robust demand in the infrastructure and power segment led by increasing need of power supply throughout the nation. ESPIPL clocked a revenue of Rs.140.16 crores in FY23; as against Rs.91.88 crores in FY22 with a year on year growth of 52.5% and Rs.111.62 crores for H1FY24; backed by increasing demand and growing order book (order book amounted to Rs.16.99 crores as on Dec 13, 2023). Furthermore, the company has consistent increase in its orders and increasing export business reported at Rs.44.97 crores in FY23 as against Rs.9.83 crores for FY22. The Export segment primarily being catered to Voltamp Transformers and Federal Transformers, Oman for FY23. The profitability margins for ESPIPL improved significantly YoY with EBITDA margin at 7.39% for FY23 vis a vis 5.48% for FY22 and PAT margin at 3.9% vis a vis 1.44% for FY22. The company reported profit of Rs.5.47 crores for FY23 as against Rs.1.32 crores in FY22. Acuite believes that the business risk profile of the company would continue to in the near term.

Improvement in operations with increasing Orderbook

The company's operations are improving year on year where ESPIPL's outstanding order book is growing with orders from Canada, Oman where ESPIPL plans to expand its presence with Voltamp Transformers. The company has an outstanding orderbook as on Dec 31, 2023 amounting to Rs. 16.99 Cr of which Rs.5.97 Cr are from Oman and Canada.

Weaknesses

Moderate Financial Risk Profile

The financial risk profile of ESPIPL remains moderate marked by increasing yet lower level of net worth, moderate gearing and comfortable debt protection metrics. The net worth of the company increased to Rs.20.04 crore as on March 31, 2023; vis a vis Rs.15.56 crore as on March 31, 2022 and as against Rs.11.45 Cr. as on March 31, 2021. The net worth also includes quasi equity worth Rs.8.86 crores as on March 31, 2023. The Debt-equity (gearing) improved yet remained moderate at 1.19 times in FY23 Vis a Vis 1.46 times in FY22. The company's debt protection metrics remained comfortable and improved marked by its Interest coverage ratio at 4.54 times for FY2023 as against 2.69 times in FY2022; improving YoY and DSCR of the company witnessed improvement to 3.62 times in FY2023 as against 2.03 times for FY2022. The Net cash accruals to total debt (NCA/TD) stood at 0.25 times in FY2023 as against 0.09 times in FY2022. TOL/TNW for ESPIPL improved to 1.72 as on March 31, 2023 as against 2.12 times as on March 31, 2023. Acuite believes that the financial risk profile of the company is likely to remain at similar levels with debt funded capex in FY23-24.

Susceptibility to volatile raw material prices

ESPIPL is exposed to the volatility in the prices of its primary raw material, CRGO (Cold rolled grain oriented steel) where the derivation of price is dependent on various factors including global scenarios such as geopolitical conflicts, pandemic etc. The inherent vulnerability in the commodity prices exposes ESPIPL to the susceptibility of margins.

Rating Sensitivities

- Ability to ramp up the production resulting in revenue growth with sustained profitability

margins.

- Elongation of working capital cycle leading to stretch in liquidity.

Liquidity Position

Adequate

ESPIPL has adequate liquidity position marked by adequate net cash accruals of Rs.6.04 crores as against debt obligations of Rs.0.87 crores for FY2023. The cash accruals of the company are estimated to increase in the near term; while maturing debt obligations are expected to rise marginally. However, the company's reliance on working capital borrowings is on higher side marked by average utilisation of ~81 percent of its bank limits as per 9 months ended Sept. 2023. (Including an ad-hoc limit of Rs.3.00 Cr.). Furthermore, the company maintains cash and bank balances of Rs.0.02 crores as on March 31, 2023 and the current ratio also stood at 1.89 times as on March 31, 2023. ESPIPL also maintained an investment of Rs.1.24 crores in fixed deposits against LC as on March 31, 2023.

Outlook : Stable

Acuité believes that ESPIPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to completion of capex and growing top line. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues while maintaining its margins and is able to improve working capital operations. Conversely, the outlook may be revised to 'Negative' if the company generates lower than anticipated cash accruals, most likely due to significant debt funded capex or impact on profitability margins, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	140.16	91.88
PAT	Rs. Cr.	5.47	1.32
PAT Margin	(%)	3.90	1.44
Total Debt/Tangible Net Worth	Times	1.19	1.46
PBDIT/Interest	Times	4.54	2.69

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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 :

Not Applicable

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 Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2024	Simple	0.50	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2026	Simple	0.91	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A3 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Short Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.75	ACUITE A3 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.94	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	28 May 2028	Simple	2.04	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Oct 2027	Simple	0.30	ACUITE BBB- Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2030	Simple	14.44	ACUITE BBB- Stable Assigned

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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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