



Sledge Hammer Oil Tools Private Limited (SHOTPL)

September 30, 2013

Facility	Amount (Rs. Crore)	Rating
Export Packing Credit	8.00	SMERA A2/(Assigned)

SMERA has assigned a rating of '**SMERA A2' (read as SMERA A Two)** to the Rs.8.00 crore fund-based bank facility of Sledge Hammer Oil Tools Private Limited (SHOTPL). The rating is supported by the company's niche business of manufacturing oil drilling tools. The rating is further supported by the company's geographically diversified clientele, high profitability, low leverage, comfortable working capital cycle and experienced management. However, the rating is constrained by the company's small scale of operations (in comparison to large global players) and exposure to clients based in politically sensitive nations including Iraq, Egypt and Nigeria.

SHOTPL, incorporated in 2006, is engaged in manufacturing and export of various types of oil drilling tools including centralizers, cementing plugs, float equipments, stop collars and stage cementing tools. SHOTPL caters to large enterprises engaged in oil exploration and production (E&P). The company operates in a niche business wherein quality certification is essential for winning contracts. SHOTPL's products comply with the API-10D and API-5CT specifications prescribed by the American Petroleum Institute. SHOTPL has a moderate scale of operations in comparison to large global players. The company registered revenues of Rs.52.80 crore in FY2012-13 (refers to financial year, April 01 to March 31). However, the company has healthy profitability with operating profit margin of 34.03 per cent and net profit margin of 21.93 per cent in FY2012-13. SHOTPL has low leverage at 0.42 times as on March 31, 2013.

SHOTPL provides about 60-days credit to its customers and receives about 40-50 days credit from suppliers. The company maintains raw material stock of about 10-15 days to ensure uninterrupted manufacturing. SHOTPL thus has a comfortable working capital cycle of about 20 days. The company's export sales account for about 95 per cent of the total revenues. SHOTPL hedges foreign exchange rate fluctuation risk through forward contracts. The company's revenues are susceptible to reduction in oil exploration and production activities on the back of lower crude oil prices. However, the company has a strong order book of about Rs.25.00 crore as on August 31, 2013. Moreover, SHOTPL's activities relate to workover operations, which are less influenced by the E&P cycle.

SHOTPL faces geopolitical risk with about 20 per cent of its exports to countries like Iraq, Egypt, Algeria, Libya and Nigeria.

SHOTPL has three factories in Faridabad, Haryana. The company plans to set up a new factory unit in Faridabad, Haryana. The projected cost of the new factory is ~Rs.22.50 crore, which is likely to be funded by bank loan (of Rs.10.00 crore) and internal accruals.

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Sledge Hammer Oil Tools Private Limited (SHOTPL)

Mr. Pradeep Mohanty, Director of SHOTPL, has over ten years of experience in the company's line of business.

Rating sensitivity parameters

- Sustainable revenue growth with a healthy financial profile
- Project execution risk

Outlook: Stable

SMERA believes the outlook on SHOTPL's rated facility will remain stable over the medium term. The outlook may be revised to 'Negative' in case of a sharp deterioration in the company's financial profile and revenue growth. The outlook may be revised to 'Positive' in case the company achieves higher-than-expected growth in revenues.

About the company

SHOTPL, incorporated in 2006, is engaged in manufacturing and export of various types of oil drilling tools including centralizers, cementing plugs, float equipments, stop collars and stage cementing tools. SHOTPL's products comply with the API-10D and API-5CT specifications prescribed by the American Petroleum Institute. SHOTPL has three factory units in Faridabad, Haryana. Mr. Pradeep Mohanty, Director of SHOTPL, has over ten years of experience in the company's line of business.

In FY2012-13, SHOTPL reported net profit of Rs.11.58 crore on total income of Rs.52.80 crore as compared with net profit of Rs.7.47 crore on total income of Rs.32.76 crore in FY2011-12.

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