



SMERA RATINGS LIMITED

Shilpa Alloys Private Limited (SAPL)**Rating
Rationale****December 05, 2013**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	3.50	SMERA B/Stable (Assigned)
Term Loan	1.21	SMERA B/Stable (Assigned)
Standby Line of Credit	0.52	SMERA A4 (Assigned)
Letter of Credit (buyers credit within LC)	2.25	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B' (read as SMERA B)** to the Rs.4.71 crore long-term bank facilities and '**SMERA A4' (read as SMERA A Four)** to the Rs.2.77 crore short-term bank facilities of Shilpa Alloys Private Limited (SAPL). The outlook is '**Stable**'. The ratings are constrained by the company's short track record of operations, working capital-intensive business, declining profitability, high leverage and low coverage indicators. The ratings are further constrained by the company's exposure to foreign exchange fluctuation risk and volatility in raw material prices. However, the ratings are supported by the company's experienced management and reputed clientele.

SAPL is a Jaipur-based manufacturer of unmachined wear-resistant castings used in cement plants, mineral processing, mining and stone crushing. The company commenced commercial operations in October 2009. SAPL's operations are working capital-intensive. The company's inventory holding period and collection period is stretched at 110 days and 94 days, respectively in FY2012-13 (refers to financial year, April 01 to March 31) while the average payable period is relatively short at 40 days during the same year. SAPL thus has an extended working capital cycle, which stretched from 144 days in FY2011-12 to 164 days in FY2012-13. The company's average bank limit utilisation is 85.68 per cent during April 2013 to September 2013.

Although SAPL's operating income increased at CAGR of 55.84 per cent during FY2009-10 to FY2012-13, the company's operations are small in scale with revenues of Rs.8.63 crore in FY2012-13. SAPL imports about 59 per cent of its total raw material requirement (from the USA and Canada) and the company does not hedge its forex risk exposure. SAPL's profitability is thus susceptible to adverse movements in foreign exchange rates. The company's operating profit margin is also susceptible to volatility in raw material (steel scrap) prices. SAPL's operating profit margin declined from 13.69 per cent in FY2011-12 to 12.84 per cent in FY2012-13. The company's net profit margin declined from 3.59 per cent in FY2011-12 to 1.60 per cent in FY2012-13 due to increase in cost of sales (on account of forex loss of Rs. 0.07 crore) and higher interest expenses and depreciation. SAPL's overall leverage deteriorated from 2.84 times as on March 31, 2012 to 3.49 times as on March 31, 2013 on account of additional short-term borrowings for working capital requirements. The company's coverage indicators are weak with cash DSCR of 0.84 times and interest coverage ratio of 1.81 times for FY2012-13.

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SMERA RATINGS LIMITED

Shilpa Alloys Private Limited (SAPL)

Rating Rationale

Mr. Akash Gupta, Director of SAPL, has around 20 years of experience in the castings industry and is actively involved in the company's strategic decision making process. Mr. Sushant Gupta and Mr. Vaibhav Gupta, Directors of SAPL, have four years of experience in the castings business. SAPL caters to various reputed original equipment manufacturers (OEMs) including Sarda Energy & Minerals Limited, McNally Sayaji Engineering Limited and Shri Bajrang Power & Ispat Limited.

SAPL has recently acquired customers in Europe. The company is setting up a machine shop within its existing factory premises at a project cost of Rs.0.66 crore, which is funded through a term loan of Rs.0.50 crore and unsecured loans (from related parties) and internal accruals of Rs.0.16 crore. The commercial operations at the machine shop are likely to commence in December 2013.

Outlook: Stable

SMERA believes the outlook on SAPL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management and reputed customers. The outlook may be revised to 'Positive' if the company registers a sustained improvement in profitability while maintaining healthy revenue growth and achieving a better capital structure. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's profit margins or in case of a significant deterioration in the company's capital structure due to higher-than-expected debt-funded capital expenditure or working capital borrowings.

About the company

SAPL, incorporated in 1990, is an ISO 9001:2008 certified company promoted by Mr. Ved Prakash Gupta, Mr. Akash Gupta, Ms. Sapna Gupta and Ms. Sandhya Gupta. SAPL commenced commercial operations in October 2009. At present, the overall operations of the company are managed by Mr. Sushant Gupta, Mr. Vaibhav Gupta and Mr. Akash Gupta.

SAPL manufactures unmachined wear-resistant castings made from austenitic manganese steel, high chrome alloy steel, hot rolled carbon steel, ni-hard steel and stainless steel. SAPL caters to various industries including cement, mineral processing, mining, stone crushing and fertilizers. The company has a registered office and a manufacturing unit in Jaipur, Rajasthan.

For FY2012-13, SAPL reported PAT of Rs.0.14 crore on operating income of Rs.8.63 crore as compared with PAT of Rs.0.27 crore on operating income of Rs.7.53 crore for FY2010-11. The company's net worth stood at Rs.1.51 crore as on March 31, 2013 as compared with Rs.1.37 crore a year earlier.

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Shilpa Alloys Private Limited (SAPL)

*Rating
Rationale*

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