

March 31, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	3.50	SMERA BB-/Stable (Upgraded from SMERA B/Stable)
Term Loan I	0.36	Withdrawn
Term Loan II	0.35	SMERA BB-/Stable (Upgraded from SMERA B/Stable)
Term Loan III	0.50	SMERA BB-/Stable (Upgraded from SMERA B/Stable)
Standby Line of Credit	0.52	SMERA A4+ (Upgraded from SMERA A4)
Letter of Credit	2.25	SMERA A4+ (Upgraded from SMERA A4)

SMERA has upgraded the rating of the Rs.4.35 crore and the Rs.2.77 crore bank facilities of Shilpa Alloys Private Limited (SAPL) to '**SMERA BB-**' (**read as SMERA double B minus**) and '**SMERA A4+**' (**read as SMERA A four plus**) from '**SMERA B**' (**read as SMERA B**) and '**SMERA A4**' (**read as SMERA A four**) respectively. The outlook is '**Stable**'. Further, SMERA has withdrawn rating assigned to the Rs.0.36 crore bank facility of SAPL with immediate effect since the term loan has been fully repaid as duly certified by the banker.

The rating upgrade is in view of the improved revenues, profitability and liquidity position of the company. The ratings factors in improvement in the financial risk profile particularly gearing and coverage indicators. Also, the ratings continue to draw comfort from the experienced management and reputed clientele. However, the ratings are constrained by the small scale of operations and working capital intensive business. Further, the ratings are also constrained by the susceptibility of profit margins to volatility in raw material prices and fluctuations in forex rates.

Update

SAPL reported revenue of Rs.15.99 crore in FY2014-15 (refers to financial year, April 01 to March 31), as compared with Rs.10.51 crore in FY2013-14. SAPL reported growth in revenues at CAGR 29 per cent during FY2010-11 to FY2014-15. The company registered revenue of Rs.17.66 crore (provisional) during the period April 2015 to February 2016 owing to increase in sales realisations.

SAPL's operating profit margin improved to 12.24 per cent in FY2014-15 from 11.41 per cent in FY2013-14. The working capital cycle improved to 132 days in FY2014-15 from 183 days in FY2013-14 on account of improvement in collections and lower inventory holding. SAPL's cash credit utilisation has been moderate at 88 per cent in the last six months ending February 2016.

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The gearing (debt-equity ratio) of the company improved to 1.63 times as on March 31, 2015 from 2.00 times as on March 31, 2014. The interest coverage ratio (ICR) improved to 2.29 times in FY2014-15 from 1.72 times and debt service coverage ratio (DSCR) improved to 1.45 times in FY2014-15 from 1.18 times in FY2013-14.

Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Improvement in capital structure
- Efficient working capital management

Outlook: Stable

SMERA believes SAPL will maintain a stable business risk profile over the medium term and continue to benefit from its experienced management. The outlook may be revised to 'Positive' if the company registers sustained improvement in profitability and capital structure while maintaining healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profit margins or significant deterioration in the capital structure on account of higher-than-expected working capital requirements.

About the Company

SAPL, incorporated in 1990, is a Jaipur-based company promoted by Mr. Ved Prakash Gupta, Mr. Akash Gupta, Ms. Sapna Gupta and Ms. Sandhya Gupta. The company commenced commercial operations in October 2009 to manufacture unmachined wear-resistant steel castings. It caters to industries such as cement, minerals, mining among others and the manufacturing facilities are located at Jaipur.

For FY2014-15, SAPL reported profit after tax (PAT) of Rs.0.47 crore on operating income of Rs.15.99 crore, as compared with PAT of Rs.0.14 crore on operating income of Rs.10.51 crore in FY2013-14. SAPL's net worth stood at Rs.3.59 crore as on March 31, 2015, as compared with Rs.2.98 crore a year earlier.

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