

Press Release

Shilpa Alloys Private Limited

October 03, 2019



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs.15.70 Cr.
Long Term Rating	ACUITE BB+/ Stable (Upgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB**' (**read as ACUITE double B**) and reaffirmed short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.15.70 crore bank facilities of Shilpa Alloys Private Limited. The outlook is '**Stable**'.

The rating upgrade is on account of significant improvement in scale of operations and overall improvement in the financial risk profile of the company. The revenues have improved to Rs. 70.48 crore in FY2019 (Provisional) as against Rs. 31.34 crore in FY2018. The company has generated a revenue of ~Rs.28.81 crore in the first 4 months of FY2020. This is mainly due to large number of orders received in FY2019 (Provisional). The financial risk profile of the company remained healthy marked by improvement in net worth and debt protection matrices.

Shilpa Alloys Private Limited (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 its commercial operations in October 2009 to manufacture wear-resistant steel castings. It caters to industries such as cement, minerals, and mining among others with manufacturing facilities located at Jaipur.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoter significant growth in revenue**

SAPL was incorporated in 1990 by Mr. Akash Gupta, who has around 20 years of experience in the casting and forging industry. The other Directors, Mr. Sushant Gupta and Mr. Vaibhav Gupta, have over a decade of experience in the industry. The revenues have improved to Rs. 70.48 crore in FY2019 (Provisional) as against Rs. 31.34 crore in FY2018. This is mainly due to large number of orders received in the FY2019 (Provisional).

Acuité believes that SAPL will sustain its existing business profile on the back of experienced management.

- **Healthy financial risk profile and**

The company has a healthy financial risk profile marked by net worth of Rs.12.18 crore as on 31 March, 2019 (Provisional) compared to Rs. 8.61 crore in the previous year. The debt-to-equity ratio improved and stood at 0.87 times as on 31 March, 2019 (Provisional) as against 1.28 times as on 31 March, 2018. This is mainly due to increase in total net worth of the company as against low reliance on bank borrowings. Further, the Interest coverage ratio stood at 3.74 times for FY2019 (Provisional) and 3.58 times for FY2018. The DSCR stood at 2.22 times for FY2019 (Provisional) as against 2.32 times for FY2017. The NCA/TD (Net Cash Accrual to total debt) stood at 0.45 times for FY2019 (Provisional) as against 0.27 times for FY2018.

Acuité believes that the financial risk profile of the company will remain healthy backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

• **Efficient Working capital Management**

SAPL's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 99 days for FY2019 (Provisional). The company maintains raw material inventory of around 30-35 days as the work in process cycle time is low. On the other hand, the company gets 30 days credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilization of its bank facility at an average of 54 per cent over the last six months through August 2019. While the peak utilization is also moderate at around 84 per cent during the same period. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company.

Weaknesses

• **Customer concentration risk**

The company's customer base is heavily dominated by some of its clients. Metso India Private Limited and Terex India Private Limited together constitutes of almost 75 per cent of the revenue for the FY2019 (Provisional).

Acuité believes that the ability of the company to expand its customer base in order to mitigate the risk will be critical.

• **Susceptibility of profitability to volatility in raw material prices and Foreign exchange fluctuation risk:**

The company's profitability is susceptible to volatility in raw material prices and foreign exchange rates. The company exports around 10 per cent of its output and imports around 36 per cent of its raw material thereby exposing itself to foreign exchange fluctuation risk in the absence of adequate hedging mechanism.

Rating Sensitivity Factor

- Sustainability of growth in revenue with respect to the order book size.
- Maintaining strong relationship with significant client such as Metso India Private Limited and Terex India Private Limited for the long term would remain a positive factor.

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its debt maturity obligations. The company generated cash accruals of Rs. 4.75 crore during FY2019 (Provisional) against no significant debt maturity obligation for the same period. The cash accruals of the company are estimated to increase from Rs. 6.50 crore in FY2020 to Rs. 9.73 crore in FY2022, while the debt maturity obligation for the same period would be Rs. 0.30 crore for FY2020 and Rs.0.72 crore for FY2021 and FY2022 each. The company maintains cash and bank balances of Rs.0.14 crore as on March 31, 2019. The current ratio of the company stood at 1.75 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate net cash accrual to its maturing debt obligation.

Outlook: Stable

Acuité believes that the SAPL will continue to benefit over the medium term on account of the extensive experience of the promoters in the casting and forging industry. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and profitability, while effectively managing its operating cycle. Conversely, the outlook may be revised to 'Negative' if there is steep decline in company's revenues and/or profitability or deterioration in company's financial risk profile owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	70.48	31.34	19.82
EBITDA	Rs. Cr.	8.29	5.05	2.62
PAT	Rs. Cr.	3.48	1.73	1.01
EBITDA Margin	(%)	11.76	16.12	13.20
PAT Margin	(%)	4.94	5.51	5.07
ROCE	(%)	33.16	22.57	18.25
Total Debt/Tangible Net Worth	Times	0.87	1.28	1.49
PBDIT/Interest	Times	3.74	3.58	3.38
Total Debt/PBDIT	Times	1.27	2.15	3.09
Gross Current Assets (Days)	Days	99	190	176

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
11-July-2018	Cash Credit	Long term	6.00	ACUITE BB/Stable (Upgraded)
	Term Loan	Long term	0.16	ACUITE BB/Stable (Upgraded)
	Term Loan	Long term	3.14	ACUITE BB/Stable (Upgraded)
	Term Loan	Long term	1.50	ACUITE BB/Stable (Assigned)
	Stand by Line of Credit	Short term	0.90	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short term	4.00	ACUITE A4+ (Reaffirmed)
19-February-2018	Cash Credit	Long term	3.50	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long term	0.21	ACUITE BB-/Stable (Reaffirmed)
	Stand by Line of Credit	Short term	0.52	ACUITE A4+ (Reaffirmed)
	Term Loan	Long term	3.30	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short term	4.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long term	0.05	ACUITE BB-/Stable (Assigned)
19-July-2017	Cash credit	Long term	3.50	ACUITE BB- (Indicative)

	Stand by Line of Credit	Short term	0.52	ACUITE A4+ (Indicative)
	Term Loan	Long term	0.35	ACUITE BB- (Indicative)
	Term Loan	Long term	0.50	ACUITE BB- (Indicative)
	Letter of Credit	Short term	2.25	ACUITE A4+ (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.16	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.14	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
Stand by line of credit	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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