

Press Release

Shilpa Alloys Private Limited

December 31, 2020



Rating Upgraded and Withdrawn

Total Bank Facilities Rated*	Rs. 15.70 Cr.
Long Term Rating	ACUITE BBB- /Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded and Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) from '**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**'.

Further, Acuité has upgraded and withdrawn the short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.4.00 Crore bank facilities of Shilpa Alloys Private Limited.

Reason for rating revision

The rating upgrade factors in sustainability in business and financial risk parameters. Despite the challenging environment in the current financial year, the company is expected to maintain its turnover and profit levels. In the current financial year, despite of the Covid-19 Pandemic, as of 30 November, 2020, the company have achieved total revenue of ~Rs.39 Crore. Further, the financial risk profile has also improved due to improvement in profitability. The company have above average financial risk profile with low gearing and strong debt protection metrics.

About the Company

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 the rating.

Key Rating Drivers

Strengths

- Experienced management with long track record of operation**

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 company has a track record of more than a decade in the casting and forging industry. The extensive experience of the directors has helped the company to maintain a healthy relationship with its customers and suppliers. The key customers of the company include names like Metso India Private Limited, Terex India Private Limited amongst others. On the back of stable and repeated orders from its customer, the operating income of the company has increased at a CAGR of ~36 percent to Rs.67.33 crore in FY2020 from Rs.19.82 crore in FY2019.

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

- **Above Average Financial risk profile**

Company's financial risk profile of the company remained above average marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.16.16 Crore as on 31 March 2020 as against Rs.12.11 Crore as on 31 March 2019. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves during the same period. The net worth also includes unsecured loan from directors and related parties amounted to Rs.3.69 Crore as that amount will sustain in the business for the longer run. The gearing level (debt-equity) stood at 0.55 times as on 31 March 2020 as against 0.87 times as on 31 March 2019. The total debt of Rs.8.86 Crore as on 31 March 2020 consists of long term debt of Rs.4.87 Crore and working capital borrowings of Rs.3.99 Crore. The interest coverage ratio (ICR) stood at 3.70 times as against 3.71 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 0.57 times in FY2020 as against 0.44 times in FY2019. Debt to EBITDA stood at 1.03 times in FY2020 as against 1.28 times in FY2019.

Acuité believes that SAPL will continue to exhibit an above financial risk profile on the back of its established position in the industry and absence of any major debt funded capex plan in the near to medium term.

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

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretched working capital cycle

Material Covenant

None

Liquidity position: Adequate

The Company has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.07 Crore in FY2020 as against debt maturity obligation of ~Rs.1.11 Crore for the year. The cash accruals of the company are estimated to remain in the range of around Rs.5.77 Crore to Rs.7.62 Crore during FY2021-23 against the CPLTD of Rs.1.10 Crore each year for the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 120 days in FY2020. As a result, the average utilization of bank limits stood low at ~47 per cent in the last six months ending November 2020. Company maintains unencumbered cash and bank balances of Rs.0.02 Crore as on 31 March 2020. The current ratio stands at 2.25 times as on 31 March 2020.

Outlook: Stable

Acuité believes that the outlook of SAPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt funded capital expenditure resulting in deterioration in its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	67.33	67.39
PAT	Rs. Cr.	3.58	3.40
PAT Margin	(%)	5.32	5.05
Total Debt/Tangible Net Worth	Times	0.55	0.87
PBDIT/Interest	Times	3.70	3.71

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-October-2019	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 (Upgraded)
	Stand by Line of Credit	Short Term	0.90	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Reaffirmed)
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)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-/Stable (Upgraded)
Term Loan I	October-2017	Not Applicable	October-2023	0.28	ACUITE BBB-/Stable (Upgraded)
Term Loan II	September-2016	Not Applicable	September-2022	0.83	ACUITE BBB-/Stable (Upgraded)
Term Loan III	April-2019	Not Applicable	April-2025	3.50	ACUITE BBB-/Stable (Upgraded)
Stand by line of Credit	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A3 (Upgraded)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	2.19	ACUITE BBB-/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3 (Upgraded: Withdrawn)

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About Acuité Ratings & Research:

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