

Press Release

Shilpa Alloys Private Limited

March 30, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.34	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	14.98	ACUITE BBB- Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	8.01	ACUITE BBB- Positive Assigned	-
Total Outstanding Quantum (Rs. Cr)	23.33	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as ACUITE triple B minus) on the Rs. 14.98 Cr. of long-term bank facilities and the short-term rating of '**ACUITE A3**' (read as ACUITE A three) on the Rs.0.34 Cr. of short-term bank facilities of Shilpa Alloys Private Limited (SAPL). The outlook has been revised from 'Stable' to '**Positive**'.

Further, Acuite has assigned a long term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs.8.01 Cr. of long term bank facilities of Shilpa Alloys Private Limited (SAPL). The outlook is stable.

Rationale for revision in Outlook

The revision in outlook takes into account the significant improvement in revenue. SAPL has reported revenue of Rs. 101 Cr. for 11M FY2022 against Rs. 68.13 Cr. in FY2021. Its operating margins also improved to 12.03 percent from 11.88 percent in the previous year. Further, the rating also draws comfort from the experience of management and above average financial risk profile. The rating however remains constrained on account of high dependence of its top clients. However, the outlook may be revised to 'Stable' in case of lower than expected growth in the revenues or any deterioration in the financial risk profile. Further, the outlook may be revised to 'Negative' in case of further increase in the customer concentration risk exposing the company to a potential revenue risk as a result of relying on a single entity.

About the Company

Shilpa Alloys Private Limited (SAPL), incorporated in 1990, is a Jaipur-based company promoted by Mr. Ved Prakash Gupta, Mr. Vaibhav Gupta and Mr. Sushant Gupta. The company commenced commercial operations in October 2009 and is involved in manufacturing of unmachined wear-resistant steel castings. It caters to industries such as cement, minerals, and mining among others with manufacturing facilities located at Jaipur. The company currently has an installed capacity of 13545 MTPA with an average utilization of around 60-65 percent for FY2022. The company exports nearly 20% of its production to clients spanning across US and UK every year.

Analytical Approach

Acuité has considered a standalone financial and business risk profile of Shilpa Alloys Private Limited (SAPL)

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.68.14 crore in FY2021 from Rs.19.81 crore in FY2017.

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

Above average financial risk profile albeit moderate net worth

SAPL's financial risk profile is above average marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood moderate at Rs.19.75 Cr. as on March 31, 2021 against Rs. 16.16 Cr. as on March 31, 2020. The net worth levels have seen improvement over the last three years on account of healthy accretion to reserves during the same period. The equity also consists Rs 3.68 Cr of USL considered as quasi. As on 28th February 2022, the net worth stood at Rs. 24.20 Cr. which also includes additional infusion of unsecured loans to the tune of Rs.5.27 Cr. to the equity. The gearing for SAPL has remained unchanged for last two years despite additional borrowing during FY2021 and stood at 0.55 times as on March 31, 2021 and March 31, 2020. The interest coverage and DSCR stood healthy at 3.96 times and 2.24 times for FY2021 against 3.70 times and 2.17 times for FY2020. Going forward SAPL's gearing is expected to remain in the range of 0.70 times with interest coverage in the range of 4.5 times

SAPL's ability to maintain its financial risk profile will remain key rating sensitivity factor.

Weaknesses

Customer concentration risk

SAPL is susceptible to customer concentration risk as two of its largest client account for over 80 percent of its revenue for 11M FY2022. During FY2021, Metso India Private Limited alone accounted for around 51% of SAPL's revenue which has further increased to 65 percent for 11M FY2022. This makes the company highly susceptible to business risk profile of its top two clients.

Acuité believes that the ability of the company to expand its customer base in order to mitigate the revenue concentration risk will be a key rating sensitivity factor.

Profit susceptible to volatility in raw material prices and foreign exchange fluctuation risk

SAPL's operating profitability is susceptible to volatility in raw material prices of steel, manganese, nickel etc. which are procured locally and also imported from Canada, Australia, and Gulfs to name a few. The company also exports its goods to countries like UK and USA, thereby exposing itself to foreign exchange fluctuation risk in turn risking the current operating margin levels in the absence of adequate hedging mechanism.

Rating Sensitivities

- Ability to expand its customer base in order to mitigate the customer concentration risk
- Continuous improvement in the scale of operations while maintaining current profitability

Material covenants

None

Liquidity Position: Adequate

The company generated cash accruals of Rs.5.17 Cr. in FY2021 as against debt maturity obligations of ~Rs.2.19 Cr. for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.9.89 Cr to Rs.12.81 Cr during FY2022-23 against the debt obligations close to of Rs.2.81-3.30 Cr. The company's working capital operations are moderate marked by gross current asset (GCA) days of 121 days in FY2021. The average utilization of working capital limits stood at ~73 per cent in the last six months ending February 2022. Acuite believes that the working capital limit requirements may increase moderately over the medium term on account of increased scale of operations. However, the promoters have infused additional equity to the tune of Rs. 5.27 Cr during the current FY2022 by means of unsecured loans, thereby mitigating any adverse effect on the financial risk profile of the company. SAPL maintained unencumbered cash and bank balances of Rs.3.21 Cr as on 31 March 2021. The current ratio stood healthy at 2.27 times as on 31 March 2021.

Outlook: Positive

The outlook has been revised to 'Positive' taking into account the significant improvement in the scale of operations for FY2022 ended February 2022 along with healthy coverage indicators, above average financial risk profile, and adequate liquidity. Further, the revision also draws comfort basis significant improvement in the operating and profitability margins during 11M FY2022 which stood at 15.32 per cent and 8.01 per cent against 12.03 per cent and 5.29 per cent in FY2021. However, the outlook may be revised to 'Stable' in case of lower than expected growth in the revenues or any deterioration in the financial risk profile. Further, the outlook may be revised to 'Negative' in case of further increase in the customer concentration risk exposing the company to a potential revenue risk as a result of relying on a single entity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	68.13	67.33
PAT	Rs. Cr.	3.61	3.58
PAT Margin	(%)	5.29	5.32
Total Debt/Tangible Net Worth	Times	0.55	0.55
PBDIT/Interest	Times	3.96	3.70

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Dec 2020	Term Loan	Long Term	3.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	0.28	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Standby Line of Credit	Short Term	0.90	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	4.00	ACUITE A3 (Withdrawn)
	Proposed Bank Facility	Long Term	2.19	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	0.83	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
03 Oct 2019	Standby Line of Credit	Short Term	0.90	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	0.16	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	6.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	3.14	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
11 Jul 2018	Letter of Credit	Short Term	4.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	1.50	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	3.14	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Cash Credit	Long Term	6.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Standby Line of Credit	Short Term	0.90	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	0.16	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
19 Feb 2018	Cash Credit	Long Term	3.50	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.21	ACUITE BB- Stable (Reaffirmed)
	Standby 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)
	Cash Credit	Long Term	3.50	ACUITE BB- (Issuer not co-operating*)
		Short		
19 Jul 2017	Standby Line of Credit	Term	0.52	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	0.35	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	0.50	ACUITE BB- (Issuer not co-operating*)
	Letter of Credit	Short Term	2.25	ACUITE A4+ (Issuer not co-operating*)
31 Mar 2016	Cash Credit	Long Term	3.50	ACUITE BB- Stable (Upgraded from ACUITE B Stable)
	Term Loan	Long Term	0.36	ACUITE B Stable (Withdrawn)
	Term Loan	Long Term	0.35	ACUITE BB- Stable (Upgraded from ACUITE B Stable)
	Term Loan	Long Term	0.50	ACUITE BB- Stable (Upgraded from ACUITE B Stable)
	Standby Line of Credit	Short Term	0.52	ACUITE A4+ (Upgraded from ACUITE A4)
	Letter of Credit	Short Term	2.25	ACUITE A4+ (Upgraded from ACUITE A4)
24 Feb 2015	Cash Credit	Long Term	3.50	ACUITE B Stable (Reaffirmed)
	Term Loan	Long Term	1.21	ACUITE B Stable (Reaffirmed)
	Standby Line of Credit	Short Term	0.52	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	2.25	ACUITE A4 (Reaffirmed)
05 Dec 2013	Cash Credit	Long Term	3.50	ACUITE B Stable (Assigned)
	Term Loan	Long Term	1.21	ACUITE B Stable (Assigned)
	Standby Line of Credit	Short Term	0.52	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	2.25	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.34	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.24	ACUITE BBB- Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.38	ACUITE BBB- Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.36	ACUITE BBB- Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.00	ACUITE BBB- Positive Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.88	ACUITE BBB- Positive Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.13	ACUITE BBB- Positive Assigned

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About Acuité Ratings & Research

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