

June 24, 2021

Sai Deepa Rock Drills Pvt. Ltd.: [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based- Cash Credit	21.25	[ICRA]BBB(Stable); assigned
Long-term – Term Loans	9.32	[ICRA]BBB(Stable); assigned
Long-term/Short-term – Unallocated	9.43	[ICRA]BBB(Stable)/ [ICRAA3+; assigned
Total	40.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factor in Sai Deepa Rock Drills Pvt. Ltd.'s (SDRDPL) established presence and significant experience of the promoters in the construction equipment industry, leading to a strong and reputed customer base. The ratings factor in the low counterparty credit risk given the reputation of the company's customers. The ratings also consider the company's comfortable financial risk profile with a gearing of 0.7 times as on March 31, 2020 and 0.5 times as on September 30, 2020 along with healthy debt coverage metrics.

However, the ratings are constrained by the company's moderate scale of operations with revenues of Rs. 164.2 crore in FY2020 and Rs. 175 crore in FY2021. Further, the company derives the major portion of its revenues from only two products – bits and hammers, exposing the company to the risks of high product concentration. The ratings consider the working capital-intensive nature of operations, as reflected in high working capital intensity of 34.2% as on March 31, 2020 owing to high debtor and inventory days. The ratings also factor in the susceptibility of margins to fluctuations in raw material prices and foreign exchange rates.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SDRDPL will continue to maintain its comfortable capital structure and healthy debt coverage indicators.

Key rating drivers and their description

Credit strengths

Established presence of the company in the construction equipment business – SDRDPL's established presence and promoters' extensive experience in the construction equipment business enabled them to build a strong customer and supplier base. Further, the company caters to a diverse set of segments such as water drilling, mining, construction, quarry, tunneling etc. and has a current installed capacity of ~6,000 MTPA.

Low counterparty risk owing to a reputed client base – It has a reputed client base comprising Hindustan Zinc Limited, Wipro Enterprises Pvt. Ltd., Reliance Jio Infocom Ltd. etc., resulting in low counterparty credit risk.

Comfortable financial risk profile and healthy debt coverage indicators – The company's financial risk profile is comfortable with a gearing of 0.7 times as on March 31, 2020 and 0.5 times as on September 30, 2020. Further, the coverage indicators are strong, as indicated by an interest coverage of 4.8 times, Total debt/ OPBDITA of 2.2 times, NCA/total debt of 33.7%, DSCR of 2.5 times and TOL/TNW of 1.0 times as on March 31, 2020. Moreover, the debt coverage indicators remained healthy in H1 FY2021.

Credit challenges

Moderate scale of operations – The company's scale of operations is moderate with revenue of Rs. 164.2 crore in FY2020 and Rs. 175 crore in FY2021. Further, the company derives the major portion of its revenues from only two products – bits and hammers – exposing the company to the risks of high product concentration.

Working capital intensive operations – The company's operations are working capital intensive, as reflected in high working capital intensity of 34.2% as on March 31, 2020 owing to high debtor and inventory days. The working capital is expected to be intensive due to the nature of the business.

Susceptibility of margins to fluctuations in raw material prices and foreign exchange rates – Alloy steel comprises the major portion of the company's total raw material costs. As the prices are volatile, SDRDPL's margins remain susceptible to the movement in raw material prices. However, the company matches sales with purchases, mitigating the raw material price risk to an extent. In addition to domestic purchases, the company imports a part of its raw material requirement. While there is a natural hedge to the extent of exports, the earnings remain susceptible to fluctuations in foreign exchange rates.

Liquidity position: Adequate

The company's liquidity is adequate given adequate cushion in the working capital limits with average utilisation of 74% in the last 12 months and sufficient cash and bank balances. Further, the company does not have any debt-funded capital expenditure plans in the near term. Besides, the company has moderate term loan repayments of Rs. 3.1 crore over the next 12 months and the cash flows are expected to be sufficient for meeting its repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a healthy improvement in its scale of operations, while improving its profitability and maintaining its liquidity position and credit metrics.

Negative factors – Pressure on the ratings could arise if a decline in scale of operations or profitability results in lower-than-expected cash accruals, weakening its liquidity and impacting its financial position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity

About the company

SDRDPL was incorporated in 2000 by Mr. Ranga Rao Nutakki and family in Hyderabad. It manufactures rock drilling tools, which are used in water well drilling, mining, quarry, construction and tunneling. The company started its operations in 2001 from its manufacturing unit based out of Cherlapally in Hyderabad (Telangana). SDRDPL has 1.1 MW solar power plant for captive use located in Bhongiri (Telangana).

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	159.2	164.2
PAT (Rs. crore)	11.9	14.1
OPBDIT/OI (%)	13.5%	13.6%
RoCE (%)	22.3%	21.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0
Total Debt/OPBDIT (times)	2.1	2.2
Interest Coverage (times)	5.2	4.8
DSCR (times)	2.5	2.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	FY2021	FY2020	FY2019
					June 24, 2021	-	-	-
1	Cash Credit	Long-term	21.25	-	[ICRA]BBB(Stable)	-	-	-
2	Term Loans	Long-term	9.32	9.32	[ICRA]BBB(Stable)	-	-	-
3	Unallocated	Long-term/Short-term	9.43	-	[ICRA]BBB(Stable)/[ICRA]A3+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	21.25	[ICRA]BBB(Stable)
NA	Term Loans	April 2016	NA	December 2023	9.32	[ICRA]BBB(Stable)
NA	Unallocated Limits	NA	NA	NA	9.43	[ICRA]BBB(Stable)/[ICRA]A3+

Source: SDRDPL

Annexure-2: List of entities considered for consolidated analysis: NA

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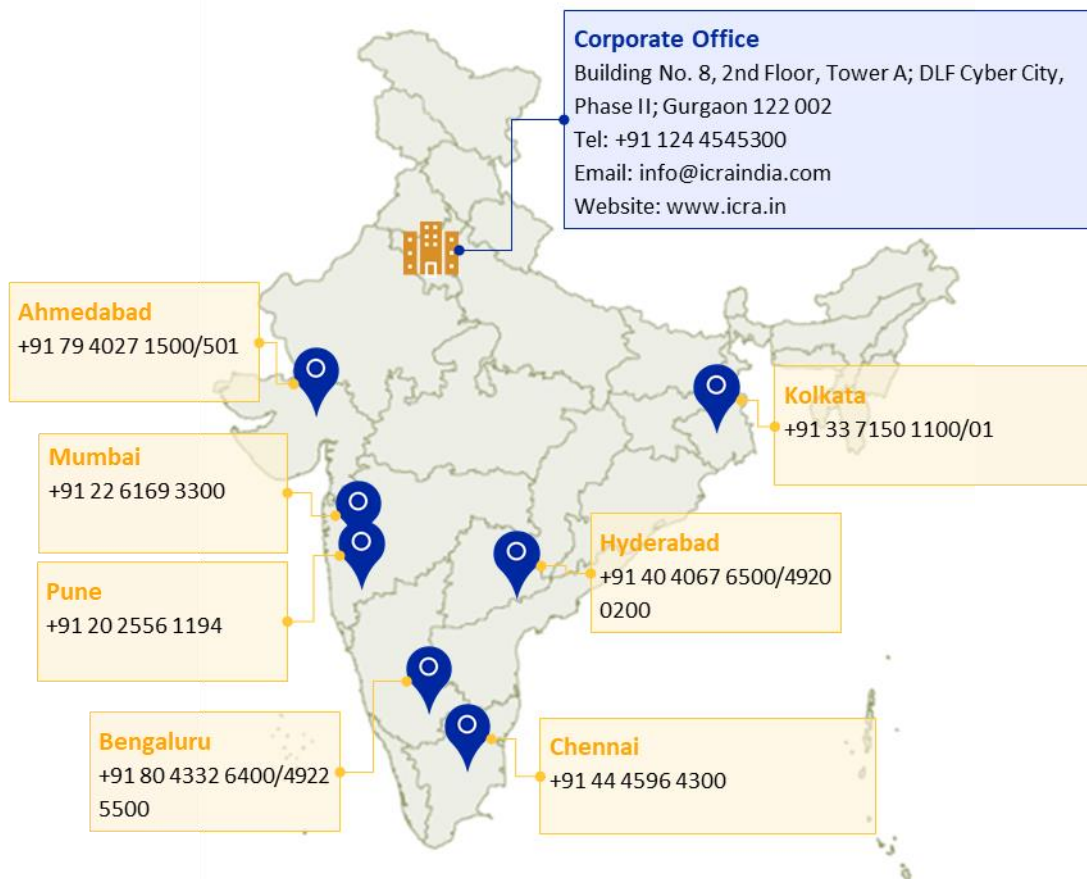


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