September 30, 2022

Sai Deepa Rock Drills Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	21.25	26.25	[ICRA]BBB(Stable); Reaffirmed
Long-term – Fund-based – Term loans	9.32	11.88	[ICRA]BBB(Stable); Reaffirmed
Long-term/short-term-Unallocated	9.43	1.87	[ICRA]BBB(Stable)/ [ICRAA3+; Reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Sai Deepa Rock Drills Pvt. Ltd.'s (SDRDPL) favourably factors in the established presence of the company and its promoters in the rock drilling equipment business, leading to a prominent customer base. The ratings favourably consider its comfortable financial risk profile, characterised by a comfortable capital structure and healthy debt coverage metrics. ICRA also notes the reputed customer profile leading to low counterparty credit risk.

The ratings are, however, constrained by the company's moderate scale of operations and concentrated product portfolio with majority of its revenues coming from bits and hammers, exposing it to high product concentration risk. The ratings consider SDRDPL's working capital-intensive nature of operations, as reflected in high working capital intensity of 38% as on March 31, 2022, owing to high debtor and inventory days and susceptibility of its margins to fluctuating 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 business position in the rock drilling industry.

Key rating drivers and their description

Credit strengths

Established presence in rock drilling equipment business – SDRDPL is an established player in the rock drilling industry with its promoters' having extensive experience, which led to a prominent customer and supplier base. The company caters to a diverse set of segments such as water drilling, mining, construction, quarry, tunnelling, etc.

Reputed client base leads to low counterparty risk – It has a reputed client base comprising Hindustan Zinc Limited, Wipro Enterprises Pvt. 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 0.5 times as on March 31, 2022 (provisional unaudited financial). Further, the coverage indicators are healthy, as indicated by an interest coverage of 8 times, Total debt/OPBDITA of 1.6 times, NCA/total debt of 46.9%, DSCR of 4.2 times and TOL/TNW of 0.9 times as on March 31, 2022 (provisional unaudited financial).

Credit challenges

Moderate scale of operations with concentrated product portfolio – The company's scale of operations is moderate with revenues of Rs. 229.1 crore in FY2022. However, the same increased from Rs. 177.2 crore in FY2021, supported by higher volume growth and realisations. Further, it derives a major portion of its revenues from only two products – bits and hammers – indicating the high product concentration risk.

Working capital-intensive operations – The company's operations are working capital intensive in nature, as reflected in high working capital intensity with NWC/OI of 38% as on March 31, 2022, owing to high debtor and inventory days.

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. In addition to domestic purchases, it imports a part of the raw material requirement. Accordingly, the company remains susceptible to fluctuations in foreign exchange rates as these are not hedged, though there is a natural hedge to the extent of exports.

Liquidity position: Adequate

SDRDPL's liquidity position is expected to remain adequate, driven by more than sufficient cash accruals against the repayments (Rs. 3.1 crore in FY2023). While the overall utilisation of working capital remained high at 80% for the last 12 months that ended in July 2022, the company is looking for additional working capital limits of Rs. 5 crore, which will provide cushion. Further, absence of any major debt-funded capital expenditure plans in the near to medium term supports its liquidity.

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 the credit metrics. Further, prudent management of the working capital limit resulting in improvement in liquidity will also be a positive for the ratings.

Negative factors – Pressure on the ratings could arise if a decline in scale of operations or profitability results in lower-than-expected cash accruals. Further, any stretch in the working capital cycle or material debt-funded capital expenditure would be a negative trigger for the ratings.

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, oil and gas mining, quarry, construction, tunnelling and well drilling. The company started operations in 2001 from its manufacturing unit Cherlapally, Hyderabad (Telangana). It also has a 1.1-MW solar power plant for captive use in Bhongiri (Telangana).

Key financial indicators (audited)

Standalone	FY2021	FY2022P
Operating income (Rs. crore)	177.2	229.1
PAT (Rs. crore)	19.0	21.7
OPBDIT/OI (%)	17.0%	14.4%
PAT/OI (%)	10.7%	9.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	1.5	1.6
Interest coverage (times)	7.3	8.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; P: Provisonal; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sept 30, 2022	Jun 24, 2021	-	-
1	Cash credit	Long-term	26.25	21.8	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Term loans	Long-term	11.88	11.88	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3	Unallocated	Long-term/Short-term	1.87	-	[ICRA]BBB(Stable) /[ICRA]A3+.	[ICRA]BBB(Stable)/ [ICRA]A3+		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Fund-based – Term loan	Simple
Long-term/ Short-term – Unallocated	NA

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	26.25	[ICRA]BBB(Stable)
NA	**Term loans**	April 2016	NA	December 2023	11.88	[ICRA]BBB(Stable)
NA	**Unallocated limits**	NA	NA	NA	1.87	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

Soumantak Bagchi
+91 33 7150 1226
soumantak.bagchi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches