

November 01, 2017

## Sturdy Industries Limited

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans**	112.48	[ICRA]D; Assigned
Fund-based Limits	90.00	[ICRA]D; Assigned
Non-fund Based Limits	133.40	[ICRA]D; Assigned
Unallocated Limits	14.12	[ICRA]D; Assigned
Total	350.00	

\*Instrument details are provided in Annexure-1

\*\* Includes working capital term loans (WCTL) and funded interest term loans (FITL)

### Rating action

ICRA has assigned long-term and short-term ratings of [ICRA]D (pronounced ICRA D)<sup>†</sup> to the Rs. 350.00-crore<sup>1</sup> bank facilities of Sturdy Industries Limited (SIL).

### Rationale

The rating assignment takes into account the delays in debt servicing, overdrawals of fund-based (FB) limits and instances of devolvement of letters of credit (LC) over the last two years on account of SIL's weak liquidity profile. The company's liquidity has remained stretched over this period on account of the delay in recovery of receivables from some of its major customers.

SIL has reported a decline in its turnover in the last three years on account of weak order inflows as well as constraints on working capital funding. Decline in the scale of operations along with intense competition and low value-adding operations have resulted in weak operating profitability. Further, high interest expenses have led to losses at the net level over the last four years. Moreover, debt levels have remained high on account of overdrawal of working capital limits and conversion of devolved LC limits into working capital term loans (WCTL). High debt levels and weak net worth base have resulted in a highly leveraged capital structure as reflected by gearing of 9.1 times as on March 31, 2017. This, coupled with low profitability, has led to weak debt-coverage indicators as reflected by NCA/Total Debt of 1.2% and Debt/OPBDITA of 20.0 times as on March 31, 2017.

However, ICRA takes note of the two-decade long experience of SIL's promoters and the company's established operational track record in the aluminium cables and conductors industry.

Going forward, SIL's ability to timely service its debt obligations, achieve revenue growth and improve its operating profitability would be closely monitored.

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's Website, [www.icra.in](http://www.icra.in), or any of the ICRA Rating Publications.

<sup>1</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strength

- **Promoters with more than two decades of experience** – SIL's promoters, Mr. Mohan Lal Gupta and Mr. Ramesh Gupta, have over two decades of experience in the aluminium cables and conductors industry. Moreover, the company has a long track record of operations, having commenced operations in July, 1989.

### Credit weaknesses

- **Delays in debt servicing on account of weak liquidity position** – SIL's liquidity position has remained weak over the last couple of years due to its stretched receivables cycle on account of delays in payments from some of its major customers. As a result, the company has not been able to generate sufficient cash flows to fulfil its debt servicing obligations. This has led to defaults on term loan repayments and interest payments, overdrawals of fund-based limits as well as devolvement of LC limits.
- **Decline in scale of operations over the last three years** – SIL's operating income (OI) has declined substantially from Rs. 842.33 crore in FY2014 to Rs. 407.34 crore in FY2017. This is on account of weak order inflows from its clients as well as working capital funding constraints that have limited the scale of operations.
- **Low operating profitability along with losses at net level** – SIL's operating profitability has remained low over the years (OPBDITA/OI of 3.0% in FY2017) on account of low-value adding operations along with significant competition in the aluminium cables and conductors industry which limits the pricing power of companies including SIL. Further, high interest expenses have resulted in losses at the net level.
- **Highly leveraged capital structure and weak debt-coverage indicators** – SIL's working capital borrowings have witnessed an increase over the last three years on account of its high working capital intensity due to stretched receivables cycle. Further, devolved LCs have been converted into WCTL, which has led to increase in long-term debt. High debt levels and weak net worth position have resulted in high leverage as reflected by gearing of 9.1 times as on March 31, 2017. Moreover, high debt levels along with weak profitability have led to weak debt-coverage indicators.

### Analytical approach

For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria

[Rating Methodology for Primary Non-Ferrous Metal Manufacturers](#)

[Corporate Credit Rating Methodology](#)

### About the company

Incorporated in July 1989, SIL manufactures aluminium cables and conductors along with plastic pipes and drip irrigation systems. The company has three manufacturing facilities at Baddi (Himachal Pradesh), Kamrup (Assam) and Parwanoo (Himachal Pradesh). The company is managed by the Gupta family – Mr. Mohan Lal Gupta, Mr. Ramesh Gupta and Mr. Amit Gupta. SIL's equity shares are listed on the Bombay Stock Exchange.

As per audited financials of FY2017, SIL reported net loss of Rs. 3.9 crore on an OI of Rs. 407.3 crore as against net loss of Rs. 11.7 crore on an OI of Rs. 428.9 crore in FY2016.

**Key financial indicators (Audited)**

	<b>FY2016</b>	<b>FY2017</b>
Operating Income (Rs. crore)	428.9	407.3
PAT (Rs. crore)	-11.7	-3.9
OPBDIT/ OI (%)	3.8%	3.0%
RoCE (%)	2.8%	3.0%
Total Debt/ TNW (times)	20.1	9.1
Total Debt/ OPBDIT (times)	16.1	20.0
Interest Coverage (times)	0.7	1.1
NWC/ OI (%)	47.2%	51.6%

*OI: Operating Income (excludes other income); 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); NWC: Net Working Capital (excludes cash and liquid investments)*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years**
**Table**

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	NA	NA	NA
1	Term Loans	Long Term	112.48	[ICRA]D	NA	NA	NA
2	Fund-based Limits	Long Term	90.00	[ICRA]D	NA	NA	NA
3	Non-fund Based Limits	Short Term	133.40	[ICRA]D	NA	NA	NA
4	Unallocated Limits	Long Term	14.12	[ICRA]D	NA	NA	NA

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon rate</b>	<b>Maturity</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating</b>
Term Loans	Sep 2017	13.35%- 13.65%	Aug 2023	112.48	[ICRA]D
Fund-based Limits	-	-	-	90.00	[ICRA]D
Non-fund Based Limits	-	-	-	133.40	[ICRA]D
Unallocated Limits	-	-	-	14.12	[ICRA]D

Source: SIL

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About ICRA Limited:

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