

Shiv Om Brass Industries

February 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	3.94	3.13	[ICRA]BB (Stable); Upgraded from [ICRA]BB-(Stable)
Long-term Fund-based – Cash Credit [#]	5.50	5.50	[ICRA]BB (Stable) ; Upgraded from [ICRA]BB-(Stable)
Short-term Fund-based – PCL/PCFC/FDBN/FDBP/FDBD(5.50) /RACB* [#]		(5.50)	[ICRA]A4; Reaffirmed
Unallocated Limits	0.06	0.87	[ICRA]BB (Stable); Upgraded from [ICRA]BB-(Stable)/[ICRA]A4; Reaffirmed
Total	9.50	9.50	

*Sublimit of Cash Credit facility

[#]used interchangeably within overall limit of Rs. 5.50 crore

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB (pronounced ICRA double B) from [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 3.13 crore¹ term loan and the Rs. 5.50 crore cash credit facilities of Shiv Om Brass Industries (SOBI or the firm)². ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 5.50 crore short-term fund-based facilities (sublimit of cash credit facility) of SOBI. ICRA has further upgraded the long-term rating to [ICRA]BB from [ICRA]BB- and reaffirmed the short-term rating of [ICRA]A4 to the Rs. 0.87 crore unallocated limits of SOBI. The outlook on the long-term rating is Stable.

Rationale

The ratings upgrade takes into account the improvement in financial risk profile supported by healthy revenue growth and improvement in overall profitability in FY2017 and 9M FY2018. The ratings also take into account the above average financial risk profile of the firm, marked by moderate capital structure and debt coverage indicators. The ratings favourably factor in the extensive experience of the promoters in the brass industry, as reflected in its established relationships with customers with a track record of providing repeat business.

The ratings, however, remain constrained by SOBI's small scale of operations and high working-capital intensity of operations, arising from a high inventory level and receivables days, which has resulted in high utilisation of the working capital limits. The ratings are also constrained by the vulnerability of the firm's profitability to adverse fluctuations in raw material prices, forex movements, intense competition and high customer concentration risk. ICRA also notes the potential adverse impact on the firm's net-worth and the gearing levels in case of any substantial withdrawal from capital accounts.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes Shiv Om Brass Industries will continue to benefit from the extensive experience of its promoters in manufacturing brass components, as well as from their established relationships with customers. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if any major debt funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Experience of promoters in the brass industry – SOBI has been manufacturing a wide range of precision turned brass components since 1992. Its key promoters, Mr. Ashish Rabadia and Mr. Snehal Gohel, have more than a decade's experience in the brass industry.

Established relationship with customers – The clientele of the firm includes reputed customers from the domestic as well as export markets. Moreover, established relationships with its customers has resulted in repeat orders with its top three customers remaining the same for the past three years.

Health revenue growth and moderate capital structure – The operating income of the firm grew at a healthy rate in FY2017 (~42%) and in 9M FY2018 (~33% on annualised), albeit on a lower base. The operating margins also increased by 194 bps to 13.32% in FY2017 as against 11.38% in FY2016, due to increase in scale and decline in operating cost (i.e., other manufacturing expenses and administrative overheads as a percentage of the operating income). Further, the firm's capital structure remains moderate as reflected by gearing of 0.83 times as on March 31, 2017. Its debt-coverage indicators also remained at moderate levels with interest coverage of 4.09 times and TD/OPBDITA at 3.48 times for FY2017.

Credit weaknesses

Small scale of operations with high customer concentration – The scale of operations continue to remain small, as reflected in operating income of Rs. 29.04 crore in FY2017 and Rs. 29.06 crore in 9M FY2018 (provisional figure). SOBI's customer concentration risk remained high with its top five customers contributing ~82-84% to the total revenue in FY2016 and FY2017.

High working capital intensity – The working capital intensity has remained high, increasing further in FY2017, as reflected by NWC/OI of ~53%, because of increase in debtor days (~99 days) and inventory levels (~148 days). The inventory levels increased to 148 days in FY2017 from 89 days in FY2016, as the company maintained high inventory to serve customer orders due in Q1 FY2018. The company normally maintains raw material inventory depending on the order book and demand forecast of its customers.

Vulnerability of profitability to adverse fluctuations in raw material prices and changes in foreign exchange rate – The profit margins of the firm are largely affected by raw material price (brass rods) fluctuations, due to limited ability to pass on the price rise owing to high competition and low bargaining power with its customers. Further, most of SOBI's revenue is generated from export markets. Thus, profitability is susceptible to any change in forex exchange rates in the absence of any formal hedging policy.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm:

Shiv Om Brass Industries (SOBI) was originally established as a proprietorship concern by Mr. Snehal Gohel in 1992. Later, in 2005, the firm was reconstituted as a partnership firm with seven partners, including a body corporate, Akshar Metals Private Limited. The key promoters, Mr. Ashishbhai Rabadia and Mr. Snehal Gohel, who manage the operations of the firm, have more than a decade of experience in the brass industry. SOBI manufactures a wide product range of precision turned brass components, which includes terminal bars, earthing bars, fasteners, inserts, switchgear parts, fitting parts, nuts, bolts and other turned parts. The manufacturing unit in Bhavnagar, Gujarat, has a production capacity of 300 metric tonnes of precision-turned brass components per month.

In FY2017, the firm reported a net profit of Rs. 0.24 crore on an operating income of Rs. 29.04 crore, as compared to a net profit of Rs. 0.35 crore on an operating income of Rs. 20.39 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	20.39	29.04
PAT (Rs. crore)	0.35	0.24
OPBDIT/ OI (%)	11.38%	13.32%
RoCE (%)	6.16%	4.88%
Total Debt/ TNW (times)	0.50	0.83
Total Debt/ OPBDIT (times)	2.71	3.48
Interest coverage (times)	2.97	4.09
NWC/ OI (%)	35.48%	52.98%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2017 (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 September 2016	Date & Rating in FY2016	Date & Rating in FY2015
Term Loan	Long Term	3.13	2.63	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	-
Cash Credit [#]	Long Term	5.50		[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	-
PCL/PCFC/FDBN/FDBP/FDBD/RACB* [#]	Short Term	(5.50)		[ICRA]A4	[ICRA]A4	-	-
Unallocated Limits	Long Term/ Short Term	0.87		[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	-	-

*Sublimit of Cash Credit facility

[#]used interchangeably within overall limit of Rs. 5.50 crore

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

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	Term Loan	FY2014	NA	FY2022	3.13	[ICRA]BB (Stable)
NA	Cash Credit [#]	NA	NA	NA	5.50	[ICRA]BB (Stable)
NA	PCL/PCFC/FDBN/FDBP/FDBD/RACB* [#]	NA	NA	NA	(5.50)	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	0.87	[ICRA]BB (Stable)/[ICRA]A4

*Sublimit of Cash Credit facility

[#]used interchangeably within overall limit of Rs. 5.50 crore

Source: Shiv Om Brass Industries

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