

October 09, 2019

Shah Precicast Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based / Cash Credit	15.50	15.50	[ICRA]B+(Stable); Reaffirmed
Short Term – Non Fund Based	1.50	1.50	[ICRA]A4; Reaffirmed
Long Term – Unallocated	3.00	3.00	[ICRA]B+(Stable); Reaffirmed
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in the extensive experience of the promoters of Shah Precicast Private Limited (SPPL or the company) in the steel and stainless-steel casting industry and its established relations with key customers over the years.

The rating, however, remains constrained by SPPL's weak debt coverage indicators, high total outside liabilities to net-worth ratio, given the high reliance on creditors funding and decline in operating profitability in FY2019. The rating also factors in the high customer and sectoral concentration risk given its high exposure to the oil and gas sector, SPPL's modest scale of operations due to sub-optimal capacity utilisations over the past few fiscals, and exposure to fluctuations in raw material prices as well as exchange rates.

The Stable outlook reflects ICRA's opinion that SPPL will continue to benefit from its long track record of operations and established relationships with its key clients.

Key rating drivers and their description

Credit strengths

Long standing experience of promoters in the steel and stainless-steel casting industry – The key promoters of SPPL, Mr. Nitin Shah and Mrs. Sunita Shah, have extensive experience of over 20 years in the steel and stainless-steel casting industry, which helps the company in client retention as well as new customers acquisition.

Established relations with the customers – The clientele of SPPL is dominated by large players from the oil and gas sector, with valves driving the largest revenue chunk in the revenue mix of the company. SPPL is able to bag repeat orders because of its well-established relationships with its key clients.

Credit challenges

Weak debt coverage indicators; high reliance on creditors funding leading to high total outside liabilities to net-worth ratio – SPPL's leverage levels have historically remained high with gearing of above 4.0 times till FY2018. The same declined to 0.2 time as on March 31, 2019, owing to sharp reduction in debt levels during the year from the proceeds of sale of assets. The company's debt coverage indicators, however, continued to remain weak as on March 31, 2019 and

deteriorated further due to decline in operating profitability, as evidenced by interest coverage of -0.3 time (P.Y.¹: 1.0 time), and TD/OBDITA of -1.8 times (P.Y.: 5.3 times). Although the company's creditor days reduced in FY2019 compared to the previous fiscal, the same still remained high at 146 as on March 31, 2019, resulting in high total outside liabilities to tangible net worth (TOL/TNW) ratio of 3.6 times.

Sharp decline in operating profit margins in FY2019 – SPPL's operating profit margins witnessed a sharp decline and turned negative in FY2019 as against OPM of 6.7% in FY2018. The same was on account of incremental raw material costs incurred during FY2019.

High client concentration risk and exposure to the oil and gas sector – SPPL continues to show high client concentration risk, with its top two clients driving ~53% of its revenue in FY2019 (47% in FY2018). Furthermore, the company has considerable exposure towards the oil and gas sector, making its business vulnerable to sector-specific slowdown or adverse policy changes. Nevertheless, SPPL's well-established relations with its key customers provide some comfort against the said risk to an extent.

Suboptimal capacity utilization resulting modest scale of operations – SPPL has historically shown sub-optimal capacity utilisation (~20-35%) leading to modest scale of operations. However, with the company selling off its new manufacturing unit and focusing on single manufacturing unit, capacity utilisation is expected to show gradual improvement over the medium term.

Margins remain vulnerable to fluctuations in raw material prices (steel) and exchange rates – SPPL's margins remain vulnerable to fluctuations in key raw material prices, viz. steel, which have exhibited volatility in the past. Also, sizeable export sales (Rs. 16.5 crore in FY2019) compared to its modest import purchases (Rs. 0.2 crore in FY2019) exposes the company to currency risks. However, procurement of raw materials against firm orders and limited hedging undertaken by the company provide some comfort against the said risk.

Liquidity position: Stretched

SPPL's liquidity is **stretched** as reflected by modest cash and equivalent balance of Rs. 1.3 crore as on March 31, 2019 and its negative cash flow from operations given the operating losses in FY2019. As on March 31, 2019, the company had outstanding term loan of Rs 0.4 crore. It has a capex commitment of ~Rs. 2.5 crore in FY2020 for which a term loan of Rs. 1.5 crore has already been tied-up while a term loan of Rs. 1.0 crore is presently proposed. The average monthly utilisation of the fund based working capital limits remained high at 86% during the 12 months period ended March 2019, offering limited cushion to the liquidity; however, SPPL's modest debt repayment of Rs. 0.2 crore in FY2020 provides some comfort.

Rating sensitivities

Positive triggers: Ratings may be upgraded if the company is able to demonstrate healthy growth in revenues and profitability on a sustained basis resulting in improved net-worth position. The company's ability maintain interest coverage of above 1.5 times on a sustained basis may also trigger a rating upgrade.

Negative triggers: Ratings may be downgraded if the company is not able to turn around the operations through scaling up of revenues and improvement in profitability leading to lower than expected cash accruals.

¹ P.Y.: Previous Year

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Incorporated in 1997, SPPL is promoted by Mr. Nitin Shah, Mrs. Sunita Shah and associates. The company is engaged in manufacturing of steel, stainless-steel and nickel alloy castings. The main types of castings manufactured are valve castings followed by pump and general engineering castings. The company has two foundry units for manufacturing single piece castings ranging from 15–3,000 kg and a machine shop for supplying fully machined components from 1” to 24”. The manufacturing units of SPPL are located in Sangli, Maharashtra, and the company has a current total installed capacity of 2,100 metric tonne per annum (MTPA), reduced from the earlier capacity of 7,800 MTPA after the sale of one of its units with a capacity of 6,000 MTPA.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	45.3	53.9
PAT (Rs. crore)	0.1	4.6
OPBDIT/OI (%)	6.7%	-1.9%
RoCE (%)	15.2%	66.7%
Total Outside Liabilities/Tangible Net Worth (times)	10.8	3.6
Total Debt/OPBDIT (times)	5.3	-1.8
Interest Coverage (times)	1.0	-0.3
DSCR	0.8	3.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					9-Oct-2019	14-Feb-2019	5-Apr-2018	6-Apr-2017	-
1	Cash Credit	Long Term	15.5	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-
2	Non-Fund Based	Short Term	1.5	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
3	Unallocated	Long Term	3.0	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-
4	Term Loan	Long Term	-	-	-	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-

Amount in Rs. 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.50	[ICRA]B+(Stable)
NA	Non-Fund Based – Letter of Credit	NA	NA	NA	1.50	[ICRA]A4
NA	Unallocated	NA	NA	NA	3.00	[ICRA]B+(Stable)

Source: Shah Precicast Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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