Press Release

Shivalik Power & Steel Private Limited

August 6, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Bank Facilities – Cash Credit	19.00	IVR BBB - /Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Long Term Fund Based Bank Facilities – Term Loan	1.56	IVR BBB - /Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Total	**20.56**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facility of Shivalik Power & Steel Private Limited (SPSPL) continues to derive comfort from being a part of the Shivalik group under an experienced promoter, established relationship with its reputed clientele and its locational advantage of being situated in the state of Chhattisgarh. The ratings also consider Shivalik group's satisfactory operating profitability with comfortable financial risk profile marked by satisfactory capital structure and healthy debt protection metrics aided by minimum near term debt repayment obligation and healthy order book position indicating a near to medium term revenue visibility. However, these rating strengths are partially offset by susceptibility of profitability to volatility in raw material prices, exposure to client concentration risk, high competition and cyclicality in the auto (commercial) component segment. Further, the ratings also consider moderation in its operating performance in FY20 and its working capital intensive nature of operations.

Key Rating Sensitivities:

Upward factors

- Substantial & sustained improvement in revenue and/or profitability leading to improvement in debt protection metrics
- Sustenance of the capital structure
- Improvement in liquidity and/or improvement in average working capital limit utilisation to below 90% on a sustained basis

Downward factors

- More than expected decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Deterioration in the capital structure on a sustained basis
- Deterioration in liquidity with sharp increase in the operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters of the group Mr. Giriraj Singhania and Mr. Vishal Sharma has extensive experience in the industry of more than a decade. With long and established presence in the industry the promoters have established a strong network with suppliers and customers. Further, the promoters are well supported by a team of experienced professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background under the guidance of the promoters

Reputed Clientele

The Shivalik group cates majority of its revenue from original Equipment's Manufacturers (OEM's) of large automobile companies and has developed an established & longstanding relationships with its customers. OEMs in commercial vehicles and tractors contribute over ~80% of the group revenue over the years. The clientele of the group includes reputed players like, TML Drivelines Ltd, Ashok Leyland Ltd, VE Commercial Vehicles Ltd, Patil Rail Infrastructure Pvt Ltd, KIC, Timken India Ltd, International Tractor Ltd, Escorts Ltd, Automotive Axles Ltd, and Tractor and Farm Equipment Ltd. Strong association with these original equipment manufacturers (OEMs), results in increasing and repeat order flow.

Locational advantage

Steel and power are the major raw material of the group. Located in the state of Chhattisgarh the group in enjoying easy access to steel as the state is one of the major steel hub in India. Besides, Chhattisgarh is a power surplus state and power is available at a cheap rate. Hence, the group is enjoying competitive edge being located in Chhattisgarh.

Stable financial performance with satisfactory profitability albeit moderation expected in FY20

The group's topline was on a steady increase with a CAGR of ~ 41% in the last three years ended FY19 on the back of steady and increasing order flow given the promoters' strong relationships with its customers. The margins of the group also remained satisfactory and range bound at ~13%-14% over the last three fiscals ended in FY19. The PAT margin of the group also remained healthy witnessed an improving trend. However, the total operating income of the group is estimated to dampened by ~36% in FY20 amidst economic slowdown leading to subdued demand for CV and tractors resulting in contraction in sales. With estimated moderation in total operating income, the profitability is also expected to dampened to an extent with deterioration in profit margins due to lower absorption of fixed costs attributable to contraction in capacity utilisation and moderation in average sales realizations. However, despite moderation, the margins are estimated to remain moderate with the EBITDA margin at ~11% and the PAT margin at ~1.12% in FY20.

Comfortable financial risk profile marked by satisfactory capital structure and healthy debt protection metrics

The financial risk profile of the group remained comfortable over the years marked by its comfortable gearing and healthy debt protection metrics. Further, the total indebtedness of the group also remained comfortable with a TOL/TNW at 1.63x as on March 31,2019. Moreover, considering the unsecured loans as the part of net worth the TOL/ANW remained at 1.47x as on March 31,2019. The debt protection metrics of the group also remained comfortable and heathy supported by its strong cash accruals marked by its strong interest coverage ratio over the years. However, even after estimated moderation in the profitability in FY20, the capital structure and the debt protection metrics are estimated to remain comfortable with TOL/ ANW at 1.19x as on March 31,2020 and interest coverage at 2.04x.

Healthy order book position indicating a near to medium term revenue visibility

The shivalik group has a strong order book comprising orders from leading OEMs of the country of ~Rs.550 crore as on May 30, 2020 (~2.5x of its FY20 estimated revenue). The orders are to be executed in the next 1-2 fiscals which indicates a strong revenue visibility in the near to medium term.

Key Rating Weaknesses

Exposure to volatility in raw material prices

The major raw material required for the group is steel and steel related items, prices of which are volatile in nature. The company procures these raw materials at prevailing market prices However, though some of its contracts with OEM'S has price revision clause to protect its margins to an extent, the overall profitability largely remains susceptible to fluctuations in its raw material prices.

Client concentration risk

The group is vulnerable to client concentration risk as the top 6 customers of the group account for ~90% of the sales indicating a concentrated client base. However, group is in the process of diversifying and increasing its customer base into various sectors including commercial vehicles, railways and metro, tractors, water works and transmission lines. The group also caters to the railways and water works component and is increasing its contribution to the same, which will mitigate the risk of concentration on a single end-user segment to an extent. In order to diversify its operations recently the group has entered into an assured offtake agreement (500 tons per month, which will gradually increase to 1000 tons per month) with USA based Star Pipes Inc. for five years starting from FY21 for supply of Water woks components.

High competition and cyclicality in the cyclicality in the auto (commercial vehicle) component segment

The automobile industry is cyclical in nature and automotive component suppliers' sales and tractors' segment sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with presence of a large number of players in the organized as well as unorganized sector. While the organized segment primarily caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers. However, established position of the group and strong relationship with the OEMS given a competitive advantage.

Working capital intensive nature of operations

Being in auto ancillary industry, the operations of the group are working capital intensive mainly due to its moderate receivables and inventory. The Shivalik group extends credit of around 30-60 days to its customers and maintained average finished goods inventory of around 60 days, while credit received has been around 30 days. Reliance on working capital borrowings has, therefore, been high with ~96% working capital limit utilisation in the past 12 months ended May, 2020.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has combined the financial risk profiles of Shivalik Power & Steel Private Limited and Shivalik Engineering Industries Limited together referred to as the Shivalik group as these entities are running under a common management, have strong operational and financial linkages and cash flow fungibility. Shivalik Engineering Industries Pvt. Ltd has also provided corporate guarantee to Shivalik Power & Steel Private Limited. The list of the companies is in **Annexure 2.**

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the group is expected to remain adequate in the near term on the back of its healthy cash generation ability. The group has estimated to generate a cash accrual of ~Rs.11 crore in FY20 and expected to generate cash accruals in the range of ~Rs.18-20 crore during FY21-23 driven by its healthy order book as against its debt repayment of ~Rs.10 crore during the aforesaid period. However, the liquidity position of the group is restricted due to its working capital intensive nature of operations and high dependence on working capital borrowings leaving a limited liquidity buffer from its working capital limits.

About the Company

Shivalik Power & Steel Pvt. Ltd (SPSPL) incorporated in 2004 is based out of Chhattisgarh. In 2007, the company forayed into foundry division and started manufacturing ductile iron and graded cast iron products (such as brake drum, hubs, flywheel, oil sump body etc.) at its foundry unit with an installed capacity of 17,500 MTPA located in Mahasamund, Chhattisgarh. Its products are used in automobile and engineering industries. Majority of the sales of SPSPL are derived from supplying to Original Equipments Manufacturers (OEM's) of large automobile companies (like Tata Motors Ltd, Volvo Eicher Commercial Vehicles Ltd, Addison India Ltd). The products of the company are ISO 9001:2008 and ISO 16949:2009 certified.

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About the Group

The Shivalik group is founded by the Mr. Giriraj Singhania and Mr. Vishal Sharma based out of Raipur, Chhattisgarh. The group has vast experience in the manufacturing of auto component products through various companies under its fold. The group started their business operations in 2004 and gradually ventured into manufacturing operations of ductile iron and graded cast iron products in 2007. Currently the group is engaged in manufacturing of different grades of Ductile Iron and Graded Cast Iron Engineering components.

Financials (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Combined	Combined
Total Operating Income	252.66	329.27
EBITDA	35.77	43.88
PAT	14.49	20.32
Total Debt	86.51	84.05
Tangible Net worth	74.10	84.06
EBITDA Margin (%)	14.16	13.33
PAT Margin (%)	4.31	6.21
Overall Gearing Ratio (x)	1.17	1.00

**As per Infomerics' Standard*

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	158.11	164.26
EBITDA	6.85	13.16
PAT	4.65	5.37
Total Debt	17.30	19.58
Tangible Net worth	36.79	42.16
EBITDA Margin (%)	7.25	8.01
PAT Margin (%)	2.32	3.26
Overall Gearing Ratio (x)	0.47	0.46

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

CRISIL has moved the rating of SPSPL into Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the last Press Release dated July 20, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2020-21**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Cash Credit	Long Term	19.00	IVR BBB-/ Stable Outlook	IVR BBB-/ Stable Outlook (July 24,2020)	-		-
2.	Term Loan	Long Term	1.56	IVR BBB-/ Stable Outlook	IVR BBB-/ Stable Outlook (July 24,2020)	-		-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	19.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	Up to October 2025	1.56	IVR BBB- / Stable Outlook

Annexure 2: List of companies considered for consolidated analysis

Name of the Company	Consolidation Approach
Shivalik Power & Steel Private Limited	Full consolidation
Shivalik Engineering Industries Limited	Full consolidation