Press Release

Salasar Techno Engineering Limited

August 05, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	569.57	IVR A/ Stable (IVR A; with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	15.00	IVR A1 (IVR A One)	Assigned	Simple
Total	**584.57**	**Rupees Five Hundred Eighty Four Crores and Fifty Seven Lakhs Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has assigned long term rating of IVR A with a Stable outlook and short-term rating of IVR A1 for the bank loan facilities of Salasar Techno Engineering Limited (STEL).

The rating draws comfort from the established track record of operations and experienced management, diversified product portfolio and geographical presence, healthy order book, reputed clientele with low counterparty risk and improved financial risk profile and profitability. However, these strengths are partially offset by working capital intensive nature of operations, tender based nature of business and susceptibility of profitability to raw material prices volatility.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes STEL's will continue to benefit from its operational track record in the business, its reputed clientele and inflow of orders as per the current order book position. The company performance has improved in FY2022 as compared to FY2021. The industry outlook is also improving led by the government of India making steady progress in infrastructure growth and development.

IVR has principally relied on the standalone audited financial results of STEL upto 31 March 2022, and projected financials for FY2023, FY2024 and FY2025, and publicly available information/ clarifications provided by the company's management.

Ongoing Capex: STEL is currently setting up a new zinc plant at its existing unit-3 with a total capacity of 96,000 metric tonne per annum (MTPA) with a total capex of around Rs. 56 crore out of which Rs. 42 crore is funded through term loans (Rs. 37 crore already sanctioned) and rest is being funded through internal accruals. This expansion will be a two-way benefit to the company, firstly it will help in saving on account of more of zinc consumption and secondly the company will be able to manufacture the monopoles of upto 3 meter diameter (as of now company can only manufacture monopoles of upto 1.6 meter diameter) which are used in high KVA transmission line which will give additional revenue to the company. This expansion is expected to be completed in third quarter of FY2023.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and EBITDA margins above 13%
- Improvement in debt protection metrics
- Sustenance of the overall gearing below 0.60x

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
  The company commenced its operations in 2006 and has a successful track record of around 16 years in the existing line of business. Overall activities of STEL are managed by four directors with Mr. Alok Kumar being the Managing Director. He has experience of more than 4 decades in the steel and EPC business. He is ably supported by other three directors namely, Mr. Shashank Agarwal, Mr. Shalabh Agarwal and Ms. Tripti Gupta who have effective experience in steel and EPC business as well as supported by qualified and well experienced management team.

- **Diversified product portfolio and geographical presence:**
  The company manufactures and sells products like telecom and transmission towers, utilities poles, railway over bridges, railway overhead electrification structures, stadium lights etc. It is also engaged EPC solutions by carrying out engineering, designing, fabrication, galvanization and deployment of towers, transmission lines and railway electrification lines. Their products are sold in PAN India and EPC services are being provided in the states Delhi, Haryana, Uttar Pradesh, Jharkhand, Himachal Pradesh, Assam, Gujarat, Rajasthan, Bihar, Orissa and Uttarakhand. Also, the company is exporting its products to countries like Philippines, Africa, Nepal.

- **Reputed clientele with low counterparty risk:**
  In tower, heavy steel structures and EPC business, the company is dealing with government and private clients namely Indian Railways, Delhi Metro Rail Corporation, Power Grid Corporation of India Limited, RITES Limited, Uttar Pradesh Power Transmission Corporation Limited etc., which carries low credit default risk. The majority of the orders in the EPC segment are backed by government-funded programmes, providing payment assurance. Furthermore, electrification and telecom being a part of infrastructure, enjoys special focus from the Government of India (GoI). Hence, regular order inflows from both the sectors are expected in near future.

- **Healthy order book position:**
  Under EPC segment the company has a healthy unexecuted order book position to the tune of about Rs 815.55 crore, besides this, the company has orders of Rs. 200.55 crores for heavy steel structures, export orders of Rs. 43.47 crore and telecom orders are received on a rolling basis on a site-to-site basis, and the company always has Rs. 30 crore- Rs 35 crore orders in hand on a monthly basis for the telecom tower structure, thereby providing a revenue visibility for the medium term.

- **Improved debt protection metrics and financial risk profile:**
  In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) improved to 3.30x in FY2022 as compared to 3.19x in FY2021, and the debt service coverage ratio (DSCR) remained comfortable at 2.92x in FY2022. The tangible networth improved to Rs. 281.10 crore in FY2022 from Rs. 251.50 crore in FY2021. The total operating income (TOI) improved by ~18.44% to Rs. 690.90 crore in FY2022 from Rs. 583.31 crore in FY2021.

- **Improved profitability:**
  The company’s operating profit and net profit improved to Rs. 68.06 crore and Rs. 31.81 crore respectively in FY2022 as compared to Rs. 56.09 crore and Rs. 29.34 crore respectively in FY2021, due to increase in overall operating income.

Key Rating Weaknesses

- **Working capital intensive nature of operations:**
  STEL’s operations are working capital intensive in nature, supported largely by bank borrowings. The average utilisation of fund based, and non-fund based working capital limits of the company stood high around 95% and 80% respectively during the last 12 months ending 31st May 2022. They have an elongated operating cycle of 162 days in FY2022 (FY2021:158 days) mainly due to the high receivable period of 105 days in FY2022 (101 days in FY2021). The receivables are high due to retention money, besides

receivables from government entities usually takes more than 100 days in the case of a project of a long duration.

- **Tender based nature of business:**
  The company has around Rs 815.55 crore an unexecuted order book position to the tune of about under engineering, procurement and construction (EPC) segment. For this segment it is mostly getting its orders through tenders floated by various government departments. As the infrastructure industry is highly fragmented due to presence of many organized and unorganized players tender driven nature of business leads to volatility in revenue and profitability. Further, being in infrastructure segment the company is exposed to inherent risks associated in this industry like slowdown in new order inflows, risks of delays in execution, political issues etc.

- **Susceptibility of profitability to raw material price volatility:**
  The company is exposed to volatility in raw material prices. The prices of these raw materials are highly volatile and can lead to volatility in the profitability margins. However, this risk of volatility in prices is partially mitigated by the company's long-standing relations and understanding with clients on the price front and price escalation clauses that work on both sides; in case raw material prices decline, the company passes on the benefit to customers, and in case the prices move upward, the company gets compensated for the same. Additionally, most of the orders in the telecom sector are of a short duration; hence, volatility in raw material prices can be incorporated in the new purchase order, preventing the company from large price movements.

Analytical Approach: For arriving at the ratings, IVR has analysed STEL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate
The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 37.62 crore, as on 31st March 2022. Against a current portion of long-term debt (CPLTD) of Rs 1.74 crore in FY2022, the company had a cash accrual of Rs. 35.81 crore in FY2022. The company projected to generate cash accruals of Rs. 62.99 crore in FY2023 against a CPLTD of Rs. 7.95 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

Salasar Techno Engineering Limited (STEL) was incorporated in 2006 under the leadership of Mr. Alok Kumar and Mr. Shashank Agarwal. It is currently managed by directors namely Mr. Alok Kumar (Managing Director), Mr. Shashank Agarwal, Mr. Shalabh Agarwal and Ms. Tripti Gupta. The company is engaged in manufacturing and sale of galvanized steel structures for telecom towers, transmission towers, utilities poles, railway over bridges, railway overhead electrification structures, stadium lights etc. It is also engaged EPC solutions by carrying out engineering, designing, fabrication, galvanization and deployment of towers, transmission lines and railway electrification lines. The company has three manufacturing units is in Hapur, Uttar Pradesh with total installed capacity of 1,00,000 metric tonne per annum (MTPA). Also, the company has heavy steel structure division (HSD) with a capacity of 15,000 MTPA which mainly manufacture heavy steel girders for use in rail/road over bridges, prefabricated buildings and other steel structures. It is an ISO certified company. The company is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	583.31	690.90
EBITDA	56.09	68.06
PAT	29.34	31.81
Total Debt	194.97	243.14
Tangible Networth	251.50	281.10
EBITDA Margin (%)	9.62	9.85
PAT Margin (%)	4.94	4.59
Overall Gearing Ratio (x)	0.78	0.86

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Instrument/Facility	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Fund Based	Long Term	334.57	IVR A /Stable (Assigned)	-	-	-
2.	Non-Fund Based	Long Term	235.00	IVR A/Stable (Assigned)			
3.	Non-Fund Based	Short Term	15.00	IVR A1 (Assigned)			

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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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
Cash Credit/WCDL	-	-	-	195.00	IVR A/Stable
Term Loan	-	-	September 2028	37.00	IVR A/Stable
GECL-TL	-	-	March 2028	42.57	IVR A/Stable
Bank Guarantee*	-	-	-	175.00	IVR A/Stable
Letter of Credit				15.00	IVR A1
Proposed Cash Credit				55.00	IVR A/Stable
Proposed Term Loan	-	-	-	5.00	IVR A/Stable
Proposed BG*	-	-	-	60.00	IVR A/Stable

*BG Tenor is more than 12 months and also includes LC as sublimit

Annexure 2: List of companies considered for consolidated analysis: Not Applicable
Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Salasar-Techno-aug22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 Complexity Level of Rated Instruments/Facilities.