Press Release

Swati Industries
March 19, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	10.43	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	37.50	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Total	**47.93**	**Rupees Forty-Seven Crores and Ninety-Three Lakhs**		

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuations and Ratings Private Limited (IVR) has assigned long-term rating of IVR BB+ with a Stable Outlook and short-term rating of IVR A4+ for the bank facilities of Swati Industries.

The rating draws comfort from its extensive industry experience of the promoters, locational advantage, comfortable debt coverage indicators and good order book position reflecting satisfactory short term revenue visibility. However, these strengths are partially offset by exposure to fluctuations in raw material prices, exposure to foreign exchange fluctuation and working capital intensive operations.

IVR has principally relied on the standalone audited financial results of Swati Industries upto 31 March 2023, 6MFY24 provisional financials & projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the firm’s management.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with sustenance of profitability margins thereby leading to overall improvement in cash accruals and liquidity.

- Improvement in the capital structure and sustained improvement in debt protection metrics

Downward Factors

- Decline in operating income and/or profitability further impacting the debt coverage indicators and/or deterioration in the financial risk profile.
- Deterioration in debt protection metrics and overall gearing.

List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

-Extensive Industry Experience of the Promoters

The management of the company is well qualified and holds three decades of experience in the same industry, their knowledge and experience have helped them in maintaining a long-term relationship with their clients in neighbouring countries and all over India.

- Locational Advantage

The firm located in Ludhiana cluster and thus has a competitive advantage in terms of skilled labour, logistics, production knowledge and vendors making the company more efficient and cost effective.

- **Comfortable debt coverage indicators**

The debt protection parameters were comfortable marked by improvement in interest service coverage ratio (ISCR) from 2.25x in FY22 to 2.58x in FY23 and debt service coverage ratio (DSCR) stood at 1.10x in FY23 as against 1.18x in FY22.

- Good order book position reflecting satisfactory short term revenue visibility

The company has unexecuted order book of Rs.104.93 crore. Company's order book is diversified towards multiple clienteles of the total order book. The outstanding order book is expected to be executed within current financial year and Q1FY25. It clearly indicates and ensure short term revenue visibility.

B. Key Rating Weaknesses

- Exposure to fluctuations in raw material prices

The price of steel has seen a lot of volatility over the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods. However, company places the major raw material orders at the time of receiving the order itself, which mitigate the price fluctuation risk to some extent.

- Intense competition in the industry:

The steel industry is highly fragmented with the presence of both organized and unorganized players in the downstream segment providing similar products/services. Hence, the company faces competition from regional players leading to intense competition and pricing pressures, which in turn affect the profitability margins of the company.

- Exposure to foreign exchange fluctuation

The company derives its major revenues about 64% in FY23 from exports, expose the company to regulatory risk arising from changes in other countries' procurement policies and forex fluctuation risk. Foreign exchange fluctuations have a direct bearing on the profitability of the Company. However, the risk for same is mitigated as the company does the forward contracts to mitigate the risk of foreign currency fluctuation.

– Working capital intensive operations

The operations of Swati industries remained working capital intensive in nature marked by majority of the funds are blocked in inventory followed by receivables. Further it purchases raw material in bulk quantity to mitigate the commodity pricing risk. Swati industries grants credit period of around 0-60 days to its customers and receives similar credit period from its suppliers, on account of this the operating cycle of the company remains elongated at 90 days in FY23.

Analytical Approach: For arriving at the ratings, IVR has analysed Swati Industry'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)](#)

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

Swati Industry's liquidity position is adequate marked by cushion in cash accruals of Rs. 3.18 crore as against its debt servicing obligation of Rs.2.56 crore in FY23. GCA is expected to remain in between Rs. 6.87-10.48 crore as against current maturities of Rs. 3.42- 2.01 crore in the projected period. The company has unencumbered cash & bank balances which stood at Rs.0.40 crore as on March 31, 2023. The current ratio stood at 1.14x in FY23.

About the Company

Swati Industries was established as a partnership firm in 1991 by Mr. Keshav Garg, Mrs. Nishi Garg and Mr. Vaneet Garg as its partners. The firm is involved in manufacturing, forging & fabricating scaffoldings and their accessories such as clamps, cup lock systems, and frame systems for automobile, agriculture and construction industry. It also exports finished products to countries like USA, Dubai, Holland, Korea, Portugal, Egypt and Spain. The firm has four manufacturing units at Ludhiana. The firm is accredited to ISO 9001:2000 certification and follows the latest international standards.

Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	250.67	276.98
EBITDA	7.28	9.90
PAT	1.08	1.40
Total Debt	44.72	58.35
Adjusted Tangible Net worth	24.43	26.72

EBITDA Margin (%)	2.90	3.57
PAT Margin (%)	0.43	0.51
Overall Gearing Ratio (x)	1.83	2.18

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings vide press release dated Jul 12, 2023, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	8.50	IVR BB+/ Stable	-	-	-
2.	Term Loan/GECL	Long Term	1.93	IVR BB+/ Stable	-	-	-
3.	Packing Credit/ Pre-Shipment Credit in Foreign Currency (PCFC)	Short Term	16.50	IVR A4+	-	-	-
4.	Foreign Documentary Bills Purchase (FDBP)	Short Term	14.00	IVR A4+	-	-	-
5.	Bill Discounting	Short Term	3.00	IVR A4+	-	-	-
6.	Letter of Credit (ILC/FLC)	Short Term	4.00	IVR A4+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt 7 instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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 Fund based Facilities- Cash Credit	-	-	-	8.50	IVR BB+/ Stable
Long Term Fund based Facilities- Term Loan/GECL	-	-	Oct, 2024	1.93	IVR BB+/ Stable
Short Term Fund Based Facilities- Packing Credit/ Pre-Shipment Credit in Foreign Currency (PCFC)	-	-	-	16.50	IVR A4+
Short Term Fund Based Facilities- Foreign Documentary Bills Purchase (FDBP)	-	-	-	14.00	IVR A4+
Short Term Fund Based Facilities- Bill Discounting	-	-	-	3.00	IVR A4+
Short Term Non-Fund Based Facilities- Letter of Credit (ILC/FLC)	-	-	-	4.00	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Swati-Industries-mar24.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.