



Press Release

Sagar Asia Private Limited

November 02, 2021

Ratings

| Sl. No. | Instrument/ Facility | Amount (Rs. crore) | Ratings | Rating Action |
|---------|-------------------------------|---|---|------------------|
| 1 | Long Term Bank Facilities | 69.07 (Enhanced from Rs. 55.25 crore) | IVR BBB-/ Stable (IVR triple B minus with Stable outlook) | Reaffirmed |
| 2 | Short Term Bank Facilities | 10.00 (Reduced from Rs. 15.00 crore) | IVR A3 (IVR A three) | Reaffirmed |
| | Total | 79.07 (Rupees Seventy-Nine crore and seven lakhs only) | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Sagar Asia Private Limited (SAPL) derives comfort from the experienced promoters with long track record of operations, stable financial performance, improvement in capital structure with infusion in equity, wide market presence and diversified clientele. However, these rating strengths are partially offset by susceptibility of profitability to volatility in raw material prices, exposure to intense competition and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Sustained and significant improvement in scale of operations, profitability and cash accruals.
- Improvement in the capital structure with overall gearing improved to below 0.75x.
- Improvement in the operating cycle with improvement in liquidity.

Downward Factors

- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.
- Deterioration in overall gearing to over 1.50 times.
- Elongation in operating cycle impacting the liquidity.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter with long track record

SAPL was incorporated in 2007 and is engaged in the manufacturing of aluminium ladder, scaffoldings, wind ladder, and aluminium extrusion. With over a decade of operational track record, SAPL enjoys established market presence across the country and capability to produce diverse product offerings which finds application in varied end user industries.

The operations of the company are looked after by the promoter Mr. Veeramsetty Vidyasagar who is also the Chairman and Managing Director of the company and is a Chartered Accountant by qualification with over 40 years of experience in the related line of activity. He is actively involved in managing the day-to-day operations of the company along with the support of qualified and experienced professionals.

Stable financial performance

The operating income stood at Rs. 96.33 crore, registering a y-o-y growth of ~8% over previous fiscal. The EBITDA margin declined to 15.45% in FY21 as against 16.96% in FY20 primarily on account of higher raw material cost vis-à-vis realization; however, the net profit margin stood at 2.14% in FY21, which is at a similar level as FY20. Consequently, the profits and cash accruals of the company have remained stable in FY21 in comparison to the previous years.

Improvement in capital structure with infusion of equity in FY2021

The adjusted net worth of the company stood at Rs. 35.93 as on March 31, 2021, which increased from Rs. 27.21 crore as on March 31, 2020, primarily on account of infusion of equity of Rs. 13.10 crore, which was used to meet the increase in the working capital requirements of the company. To arrive at the net worth, Infomerics has considered Rs. 4.48 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. The increase in the net worth led to an improvement in the capital structure of the company as depicted by a gearing of 1.47x as on March 31, 2021



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in comparison to 1.65x as on March 31, 2020; however, the same continues to remain leveraged.

Wide market presence

SAPL has a pan India presence as its products is sold across the country. Further, the company is also involved in export sales; however, its contribution remains small at present. The wide market presence of the company limits geographical concentration risk.

Diversified clientele

SAPL has four business verticals: aluminium extrusion, ladder, scaffolds and wind ladder. The company has a diversified client base with sales to various industries in India and overseas. The top ten customers accounted for only ~38% of the total sales in FY21 indicating a diversified customer profile.

Key Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. The overall working capital intensity of SAPL's business is governed to a large extent by its raw material inventory which in turn is governed by its order execution cycle. Further, SAPL has to extend credit period of 60-90 days to its customers on account of intense competition in the industry. Also, the manufacturing process are interlinked and interdependent in such a way that a finished good of one process acts as a raw material for another process. Hence, the company has to maintain around two to three months of inventory in hand as a regular business practice. However, the same is negated to some extent since it enjoys 45-60 days credit period from its suppliers. The operating cycle increased from 134 days in FY20 to 152 days in FY21. Further, the average working capital utilisation also remained high at 97% during the last twelve months ended September 30, 2021.

Susceptibility of profitability to volatility in raw material price

Aluminium ingots and billets are the key raw material for SAPL. SAPL procures aluminium ingots and billets from large domestic suppliers like Vedanta Aluminium Limited and Hindalco Industries Limited which indicates low bargaining power of the company as against



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its key suppliers. Further, the aluminium industry is cyclical in nature with prices for the commodity driven by changing demand and supply conditions in the market which also has strong linkages to the global market. This results in risk of price fluctuation on the inventory of raw materials as well as finished goods.

Intense competition

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, SAPL also faces competition from the organized sector players.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity: Adequate

The liquidity of the company appears to be adequate marked by sufficient cash accruals vis-à-vis its debt repayment obligations in the near to medium term. Moreover, the company also had a comfortable cash and bank balance of Rs. 2.05 crore as on March 31, 2021. The average working capital utilisation remained high at ~97% during the past twelve months ended September 30, 2021, indicating a limited liquidity buffer. However, the promoters have also continuously supported the operations of the company by infusing funds in the form of equity and unsecured loans. The current ratio also stood comfortable at 1.33 times in FY21.



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About the Company

Incorporated in 2007 by Hyderabad based Mr. Veeramsetty Vidyasagar, Sagar Asia Private Limited (SAPL; Erstwhile Zarges Tubesca India Private Limited) is engaged in manufacturing of aluminium ladder, scaffoldings, wind ladder and aluminium extrusion with annual installed capacity of 10,000 MTPA for aluminium extrusions, 1,00,000 units per month for aluminium and fiberglass ladders, 2,400 MTPA for scaffolds, 1,000 tower sets per month for wind ladders, 100 units per month for service lifts and 1,200 MTPA for solutions and specialities. The company has 4 manufacturing units located in Hyderabad and its products are ISO 9001, 14001, 18001 certified.

Financials (Standalone):

| For the year ended* / As on | 31-Mar-20 (A) | 31-Mar-21 (A) |
|--------------------------------------|----------------------|----------------------|
| Total Operating Income | 89.00 | 96.33 |
| EBITDA | 15.10 | 14.88 |
| PAT | 1.92 | 2.07 |
| Total Debt | 45.01 | 52.88 |
| Tangible Net Worth (Adjusted) | 27.21 | 35.93 |
| EBIDTA Margin (%) | 16.96 | 15.45 |
| PAT Margin (%) | 2.14 | 2.14 |
| Overall Gearing ratio (x) (Adjusted) | 1.65 | 1.47 |

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: N.A.

Any other information: N.A.



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Rating History for last three years:

| Sr. No. | Name of Instrument/ Facility | Current Rating (Year 2021-22) | | | Rating History for the past 3 years | | |
|---------|---------------------------------|-------------------------------|-----------------------------------|-----------------|--|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2020-21 (Sep 20) | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 |
| 1. | Term Loan | Long Term | 4.31 | IVR BBB-/Stable | IVR BBB-/Stable | - | - |
| 2. | Proposed Term Loan | Long Term | 5.00 | IVR BBB-/Stable | - | - | - |
| 3. | Cash Credit | Long Term | 30.00 | IVR BBB-/Stable | IVR BBB-/Stable | - | - |
| 4. | Proposed Cash Credit | Long Term | 20.00 | IVR BBB-/Stable | IVR BBB-/Stable | - | - |
| 5. | Working Capital Term Loan | Long Term | 5.00 | IVR BBB-/Stable | - | - | - |
| 6. | Unallocated Limits | Long Term | 4.76 | IVR BBB-/Stable | IVR BBB-/Stable Outlook | - | - |
| 7. | Bank Guarantee | Short Term | 7.00 | IVR A3 | - | - | - |
| 8. | Proposed Bank Guarantee | Short Term | 3.00 | IVR A3 | IVR A3 | - | - |



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Name and Contact Details of the Rating Analysts:

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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 (INR Crore) | Rating Assigned/ Outlook |
|--------------------|------------------|-----------------|---------------|------------------------------|--------------------------|
| Term Loan | - | - | February 2023 | 4.31 | IVR BBB-/ Stable |
| Proposed Term Loan | - | - | - | 5.00 | IVR BBB-/ Stable |
| Cash Credit - I | - | - | - | 15.00 | IVR BBB-/ Stable |
| Cash Credit – II | - | - | - | 15.00 | IVR BBB-/ Stable |



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|---------------------------|---|---|---------------|-------|------------------|
| Proposed Cash Credit | - | - | - | 20.00 | IVR BBB-/ Stable |
| Working Capital Term Loan | - | - | December 2021 | 5.00 | IVR BBB-/ Stable |
| Unallocated Limits | - | - | - | 4.76 | IVR BBB-/ Stable |
| Bank Guarantee | - | - | - | 7.00 | IVR A3 |
| Proposed Bank Guarantee | - | - | - | 3.00 | IVR A3 |

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Sagar-asia-lenders-Nov21.pdf>

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

Annexure 5: Complexity level of the rated Instruments/Facilities

| Sr No. | Instrument | Complexity Indicator |
|--------|----------------|----------------------|
| 1. | Cash Credit | Simple |
| 2. | Bank Guarantee | Simple |
| 3. | Term Loan | Simple |
| 4. | WCTL | Simple |

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.