Press Release

Salasar Techno Engineering Limited

August 22, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	728.08	IVR A/ Stable (IVR A; with Stable Outlook)	IVR A/ Stable (IVR A; with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	17.92	IVR A1 (IVR A One)	IVR A1 (IVR A One)	Reaffirmed	Simple
Issuer Rating*	-	IVR A (Is)/ Stable (IVR A [Issuer Rating] with Stable Outlook)	-	Withdrawn	Simple
Total	**746.00**	**Rupees Seven Hundred Forty Six Crore Only**			

Note: *Issuer Rating has been withdrawn based on the withdrawal request received from Issuer*

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has reaffirmed 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 continues to draw 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 comfortable financial risk profile. However, these strengths are partially offset by decline in debt protection metrics, 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 FY2023 as compared to FY2022. 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 2023, Q1FY24 unaudited results and projected financials for FY2024, FY2025 and FY2026, 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. 50 crore out of which Rs. 37 crore is funded through term loans (Rs. 37 crore already sanctioned) and rest is being funded through internal accruals of Rs. 13 crore. 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 by end of September 2023 and till date Rs. 25 crore of cost has already been incurred.

It is also in process of setting up a new Heavy Steel Structure (HSD) manufacturing plant in Bhilai, Chhattisgarh with a capacity of 25,000 MTPA. The total cost of this project is Rs. 60 crore which will be funded through a bank term loan of Rs. 46.66 crore (already sanctioned by IndusInd bank) and internal accrual of Rs. 13.34 crore. As of date only land acquisition has been completed and no disbursement of loan has been taken from IndusInd Bank. The company plan to set up this plant at this location due to easy availability of raw material like steel and a lot of industrial activities happen in this area. This plant is expected to start from after second half of FY2025

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and EBITDA margins above 12%
- Improvement in debt protection metrics
- Sustenance of the overall gearing below 0.55x

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, USA etc.

- **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, Indus Bharti Airtel, ATC Telecom Infrastructure, Larsen & Turbo 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 1130.36 crore, besides this, the company has orders of Rs. 127.92 crores for heavy steel structures, monopoles orders of Rs. 64.21 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.

- **Comfortable financial risk profile:**
The tangible networth improved to Rs. 399.60 crore in FY2023 from Rs. 281.10 crore in FY2022. Overall gearing has improved to 0.68x in FY2023 from 0.86x in FY2022.The total operating income (TOI) improved by ~44.75% to Rs. 1000.06 crore in FY2023 from

Rs. 690.90 crore in FY2022. In Q1FY24 it achieved TOI of Rs. 261.74 crore as compared to Rs. 209.35 crore in Q1FY23.

Key Rating Weaknesses

- **Decline in debt protection metrics :**
  In terms of the debt protection metrics, the interest service coverage ratio (ISCR) declined to 2.92x in FY2023 as compared to 3.30x in FY2022 due to higher interest cost, and the debt service coverage ratio (DSCR) declined to 2.17x in FY2023 as compared to 2.92x in FY2022 due to higher repayment but remained at comfortable levels.

- **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 93.65% and 88.25% respectively during the last 12 months ending 30th June 2023. They have an elongated operating cycle of 144 days in FY2023 (FY2022:162 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 1130.36 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)
Criteria for Assigning Rating Outlook

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 49.51 crore, as on 31st March 2023. Against a current portion of long-term debt (CPLTD) of Rs 7.95 crore in FY2023, the company had a cash accrual of Rs. 45.67 crore in FY2023. The company projected to generate cash accruals of Rs. 71.90 crore in FY2024 against a CPLTD of Rs. 10.88 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	31-03-2022	31-03-2023
	Audited	Audited

Total Operating Income	690.90	1000.06
EBITDA	68.06	91.28
PAT	31.81	40.09
Total Debt	243.14	270.45
Tangible Networth	281.10	399.60
EBITDA Margin (%)	9.85	9.13
PAT Margin (%)	4.59	4.00
Overall Gearing Ratio (x)	0.86	0.68

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 2023-24)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 05 Aug 2022	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	418.08	IVR A /Stable (Reaffirmed)	IVR A /Stable	-	-
2.	Non-Fund Based	Long Term	310.00	IVR A/Stable (Reaffirmed)	IVR A /Stable	-	-
3.	Non-Fund Based	Short Term	17.92	IVR A1 (Reaffirmed)	IVR A1	-	-

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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 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
Cash Credit/WCDL	-	-	-	265.00	IVR A/Stable
Term Loan	-	-	September 2027	37.00	IVR A/Stable
Term Loan	-	-	December 2028	46.66	IVR A/Stable
GECL-TL	-	-	December 2025	8.37	IVR A/Stable
GECL-TL	-	-	March 2026	12.37	IVR A/Stable
GECL-TL	-	-	December 2027	6.93	IVR A/Stable

GECL-TL	-	-	May 2028	6.75	IVR A/Stable
Bank Guarantee*	-	-	-	245.00	IVR A/Stable
Letter of Credit				15.00	IVR A1
LER	-	-	-	2.92	IVR A1
Proposed Cash Credit	-	-	-	35.00	IVR A/Stable
Proposed BG*	-	-	-	65.00	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-aug23.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.