

Ess Arr Metal Industries

March 02, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.27	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable; (Single B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	4.73	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable/ A Four; ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable / CARE A4; (Single B Plus; Outlook: Stable / A Four)
Total Facilities	18.00 (Rs. Eighteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated January 28, 2020 placed the ratings of Ess Arr Metal Industries (EAMI) under the 'issuer non-cooperating' category as EAMI had failed to provide information for monitoring of the rating. EAMI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated January 29, 2021, February 01, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further banker could not be contacted.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The rating has been revised by taking into account non-availability of information and no due-diligence conducted due to non-cooperation by EAMI with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk. Further, the ratings continue to remain constrained owing by small scale of operations with relatively low capitalization, moderate and fluctuating profit margins, leveraged capital structure and moderate debt coverage indicators.. Further , the rating remains constrained on account of project completion, stabilization risk associated with factory expansion project, Presence in competitive and fragmented industry with volatile raw material prices and Proprietorship nature of constitution.

The ratings, however, continue to take comfort from established track record of operations along with qualified and experienced proprietor and established relationship with reputed albeit concentrated customer base.

Detailed description of the key rating drivers

At the time of last rating on January 28, 2020 the following were the rating weaknesses and strengths:

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with relatively low capitalization

The scale of operations of the entity remained small, however; the same has continuously increased from Rs.11.59 crore to Rs.30.82 crore during FY16-FY18 on account of increase in number of orders executed on the back of increase in production capacity during past three years. The tangible net worth of the entity also remained very small at Rs.3.16 crore as on March 31, 2018 owing to low capitalization during past.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Moderate and fluctuating profit margins

The profit margins of the entity stood moderate although remained fluctuating during past three years ended FY18. . The fluctuation in profit margin is also attributable due to fluctuation in raw material prices i.e. steel. PBILDT margin has improved in FY18 and stood at 9.36% (vis-à-vis 5.22% in FY17). However, PAT margin has marginally deteriorated to 4.05% in FY18 (vis-à-vis 4.64% in FY17).

Leveraged capital structure and moderate debt coverage indicators

The capital structure of the entity remained leveraged during last three balance sheet dates on account of high reliance on external debt with low tangible networth base. The overall gearing stood at 2.64x as on March 31, 2018 (vis-à-vis 2.10x as on March 31, 2017) which has deteriorated on account of new term loan availed during FY18 for capacity expansion. Furthermore, the debt coverage indicators viz. total debt to gross cash accruals (GCA) and interest coverage ratio stood moderate at 4.82x times and 2.51x in FY18 respectively (vis-à-vis 4.03 times and 2.45x in FY17).

Project completion, stabilization risk associated with factory expansion project

EAMI is undertaking an expansion project at Harayana plant in order to expand its production capacity. The total cost of the project is estimated at Rs.13.50 crore, which is primarily to be funded by way of term loans from bank. Till November 20, 2018, the company has incurred only ~15% of the total cost towards purchase of land and term debt is also not yet tied up. Hence, it is susceptible to the project funding, timely completion and stabilization risk associated with the same.

Presence in competitive and fragmented industry with volatile raw material prices

EAMI operates in a highly competitive and fragmented auto ancillary industry. The entity witnesses intense competition from both the other organized and unorganized players domestically and globally. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry. Also, the raw material price fluctuations can sometimes affect the margins of the business. Further prices of raw material i.e. Iron & steel are primarily are volatile in nature and limited bargaining power with the customers and suppliers; any adverse volatility in the raw material prices may hamper the entity's margins.

Proprietorship nature of constitution

Due to EAMI being a proprietorship entity, it has limited ability to raise capital as it has restricted access to external borrowings where personal net worth and credit worthiness of partners affect decisions of prospective lenders. Further, it is susceptible to risks of withdrawal of proprietors' capital at time of personal peril and poor succession decisions may raise the risk of dissolution of the entity.

Key Rating Strengths**Established track record of operations along with qualified and experienced proprietor**

EAMI possesses established track record with about two decades of existence in engineering industry. Further, the promoter Mr. Kundan Singh, is a B.Tech having an industry experience of more than three decades in same line of business. Further the proprietor is also supported by experienced and qualified second line of management who is having considerable experience in the same field.

Established relationship with reputed albeit concentrated customer base

EAMI engaged in manufacturing of than 1000 types of sheet metal components and heavy fabrications equipment required for mining & crushing industry, cement industry, construction Industry, automobile and automotive industry. Further, the customer base of the entity includes various reputed clients from whom it receives regular orders on the back of established relationships with them. However, the customers profile is remained concentrated with top 3 customers constituting 74% of total sales for FY18.

Analytical Approach: Standalone**Applicable criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

About the Firm

Ess Arr Metal Industries was established in the year 1997 as a proprietorship firm by Mr. Kundan Singh Shah. The entity is engaged in manufacturing of heavy fabrication & sheet metal components such as hoopers, side egdes, support beam, frame component, feet panel components with various other innumerable components used for crane equipment's, elevators, pressing machine, crushing machines , steel plants etc. which finds its major application in the mining & crushing Industry, cement industry, construction industry and automobile industry etc. furthermore 90% of the revenue is generated from manufacturing of heavy fabrication wherein the client provide the design as per their specifications .

Non BFSI

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	21.68	30.82
PBILDT	1.13	2.88
PAT	1.01	1.25
Overall gearing (times)	2.10	2.64
Interest coverage (times)	2.45	2.51

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	13.27	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST-Cash Credit	-	-	-	4.73	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	13.27	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (28-Jan-20)	1)CARE BB-; Stable (14-Jan-19)	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	4.73	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Jan-20)	1)CARE BB-; Stable / CARE A4 (14-Jan-19)	-

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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