

Smita Conductors Private Limited

October 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	40.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	298.00	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	338.00 (₹ Three Hundred Thirty-Eight Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating reaffirmed to the bank facilities of Smita Conductors Private Limited (SCPL) factors in experienced promoters and its well-established track record in conductor business and its highly comfortable capital structure. The ratings further derive strength from its substantial liquid investments into mutual funds and minimal working capital utilization.

The ratings, however, continue to be constrained by decline in scale of operations and margins, weak debt coverage indicators and customer & supplier concentration risk.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations to atleast Rs.500 crore with receipt of higher orders
- Increase in PBILDT margins to 18% on a sustained basis with decline in operating expenses as well as execution of higher margin orders

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in Mutual fund investments below Rs.200 crore
- Deterioration in overall gearing above 0.25x on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Extensive experience and established track record in conductor business: Mr. Bharat Taparia established SCPL in 1971 by taking over Ghaziabad Works from Hindustan Brown Boveri. In 1979, the company took over Vithalwadi Works (conductor business) from Apar Industries Limited. In 2004, the company discontinued operations at Vithalwadi and set up a new unit at Silvassa. The promoters have a long and established track record of over four decades in the conductor business and are also assisted with a well-defined organization structure which brings in high degree of operational expertise.

Substantial quantum of liquid investments: SCPL's liquidity position is strong marked by substantial investments in form of liquid mutual funds (at Fair Value) amounting to Rs.398.57 crore and Rs.27 crore in form of Inter Corporate Deposits (provided for a period ranging from three months to one year) as on March 31, 2022 as against Rs.341.94 crore in liquid mutual funds and Rs.18.00 crore in Inter Corporate Deposits as on March 31, 2021.

Further comfort can be derived from the fact that the networth build-up is primarily due to actuarial gain as all the investment are of long-term nature (thus gains is routed through reserves) and in FY22 the proportion of investment in equity mutual funds has increased from 34.58% in FY21 to 72.81%. Also, the portfolio is diversified into mid and small cap companies.

Comfortable capital structure

SCPL continues to have a comfortable capital structure with an overall gearing of 0.04 times as on March 31, 2022 vis-à-vis 0.02 times as on March 31, 2021 owing to lesser requirements of working capital borrowings on account of lower scale of operations. Also, company is efficient in timely collection of its receivables resulting into lower working capital borrowing requirement.

Key rating weaknesses

Sharp decline in scale of operations and profitability margins: The scale of operations of SCPL stood modest with total operating income (TOI) of Rs.47.53 crore in FY22 (vis-à-vis Rs.70.12 crore in FY21). In FY22, the TOI declined significantly as

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the company was not participating in bidding of tenders floated by authorities owing to very thin margins to be earned from it. Furthermore, during 5MFY23, the company has booked sales of Rs.12.00 crore.

SCPL has booked operating loss of Rs.2.13 crore in FY22 vis-à-vis operating profit of Rs.2.19 crore owing due to lower scale of operations, fixed cost remaining almost on same level, increased raw material costing and lower realizations. Although, it has booked profit at net level owing to significant non-operating income. PAT margin remained at 2.61% in FY22 vis-à-vis 4.18% in FY21.

Weak debt coverage indicators: Due to operating losses booked during the year, the debt coverage indicators stood weak with total debt/GCA and interest coverage ratio stood at 27.11 times and negative 1.64 times respectively in FY22 (vis-à-vis 1.04 times and 1.84 times respectively in FY21).

Customer and Supplier concentration risk: SCPL has established long-term relationships with all of its reputed customers. The company takes only those orders in which payments are prompt or which are LC backed. However, the customer base of the company remained concentrated with top five customers comprised 100% of the gross sales in FY22.

The major raw materials used in the manufacturing of conductors are Aluminum and Steel. SCL's aluminium requirement is primarily catered by Hindalco Industries Limited-around 87% of the total purchase of raw materials in FY22. Such concentration of supplies is not favourable as any disruption in supplies by Hindalco can adversely impact SPCL's manufacturing schedule. Although SCL does not have any long-term agreement with suppliers for raw material procurement, it benefits from its long-term association.

Liquidity: Strong

Liquidity is marked by strong accruals, minimal utilization of working capital limits and substantial investment in Mutual Funds of around Rs.398.57 crore as on March 31, 2022. The company does not intend to incur any major capex nor does it have any plans to take any term debt. Its cash credit limits of Rs.40 crore is average utilized at ~10% during past twelve months ended August, 2022. Further, the current ratio and quick ratio stood moderate at 1.29 times and 1.13 times respectively as on March 31, 2022 (vis-à-vis 1.56 times and 1.32 times respectively as on March 31, 2021). The cash flow from operations was negative at Rs.1.59 crore in FY22 (vis-à-vis negative at Rs.0.87 crore in FY21). The debtors outstanding of Rs.13.67 crore as on March 31, 2022 have been fully recovered.

Analytical approach: Standalone

Applicable criteria

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

[CARE's policy on default recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

Smita Conductors Private Limited (SCPL), established by Mr. Bharat Taparia, is engaged in manufacturing of aluminium conductors including All Aluminium Conductor (AAC) and Aluminium Conductor Steel Reinforced (ACSR). SCL has two manufacturing units with one each at Ghaziabad and Silvassa. Its total installed capacity (both units put together) is 90,000 Metric Tonnes (MT) as on June 30, 2022. The company manufactures conductors that are in the range from 11KVA to 800KVA. The company supplies conductors mainly for 400 KV/500/800 KV High-voltage direct current (HVDC) transmission lines to various utilities in the country.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	5MFY23
Total operating income	64.87	44.19	12.00
PBILDT	-3.06	-5.47	NA
PAT	2.94	1.24	NA
Overall gearing (times)	0.02	0.04	NA
Interest coverage (times)	-2.57	-4.23	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Available

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	298.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Oct-21)	1)CARE A; Negative (29-Sep-20)	1)CARE A; Stable (24-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	298.00	CARE A1	-	1)CARE A1 (06-Oct-21)	1)CARE A1 (29-Sep-20)	1)CARE A1 (24-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
1. Current ratio	The company shall ensure maintenance of current ratio at the estimated level of 1.27.
2. Debt Equity ratio	Debt Equity ratio should not be more than 4.5.
B. Non-financial covenants	
1. Stock and book debt audit	Stock and book debt audit to be conducted every year during third quarter and the applicable fees to be recovered from the company.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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