Smith Structures (India) Private Limited

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	69.00	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	91.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Smith Structures (India) Private Limited derives strength from the experience of its promoters in Pre-engineered building (PEB) industry, growing scale of operations moderate order book position with geographical diversification and reputed clientele, moderate capital structure and adequate liquidity.
The ratings however remain constrained on account of moderate profitability with susceptibility to volatility in commodity prices, project risk associated with a sizeable upcoming debt-funded capex and competitive industry with tender-based nature of operations along-with execution challenges.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Maintenance of growth in scale of operations along with sustenance of operating margin above 8%
- Improvement in of overall gearing below 0.40x with augmentation of net worth base

Negative factors

- Decline in scale of operations with Total Operating Income (TOI) below Rs.400 crore along with moderation in profitability.
- Any large debt funded capex resulting in ddeterioration of overall gearing above 0.80x

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectations that the company will continue to benefit from the vast experience of its promoters in PEB segment and sustain its moderate financial risk profile in near to medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with established track record of operations

SSIPL is promoted by Panchal family, with directors having experience of around a decade in Engineering and capital goods industry, which has enabled them to establish good relations with customers and suppliers. Company is managed by Mr. Monik Panchal and Mr. Chintan Panchal who have experience of above 10 years in PEB business. The promoters are assisted by an experienced management team to carry out project execution and day-to-day operations.

Moderate order book position with reputed client base

The company has outstanding order book of Rs.638.34 cr. as on May 31, 2024, with orders generally ranging from 3 to 8 months. The order book is also geographically diversified, with work spread across Haryana, Tamil Nadu, Maharashtra, Assam, Karnataka, West Bengal, Rajasthan, Andra Pradesh, Uttar Pradesh. The diversification shields the company from state-specific macro-economic factors and policies. Client concentration risk remains moderate with top 10 customers contributing 35-45% of TOI for past three years ended FY24. Furthermore, SSIPL's clientele comprises renowned companies, with whom the company has established long-term relationships, mitigating the counterparty risk to a certain extent.

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

Growing scale of operations albeit with moderate profitability
The TOI of SSIPL grew at Compound annual growth rate (CAGR) of ~20% to Rs.646.33 cr. over last three years ended FY24 , with increase in sales volume due to rising demand of PEB structures.

PBILDT margin however remained moderate in the range of 6-8% in the last three years ended FY24 owing to sizeable employee costs and manufacturing overheads. With a 170 bps improvement in operating margin in FY24 to 8.35% supported by better absorption of overheads, gross cash accruals of the company also improved to Rs.38.92 cr. in FY24 from Rs.20.45 cr. in FY23 though remained moderate.

Moderate capital structure and moderate debt coverage indicators
The capital structure of the company remains moderate with an overall gearing of 0.44 times as on March 31, 2024 (gradually improved from 2.55 times as on March 31, 2022) and total outside liabilities to net worth (TOL/TNW) of 1.42 times at FY24 end (3.61 times at FY22 end) with gradual reduction in debt levels supported by healthy cash flow from operations. Net worth base of the company remains moderate at around Rs.65.58 crore, at FY24 end.
Further, with scaling up of operations and improvement in profitability the debt coverage indicators of SSIPL improved gradually, marked by interest coverage and total debt to GCA of 20.61 times and 0.73 years respectively in FY24 (FY22: 20.61 times and 0.73 years).

Key weaknesses
Project risk associated with upcoming capex
Company is planning to undertake a capacity enhancement project by setting up new plant of PEB of 72000 MT production capacity near Bangalore. As articulated by the management, the total cost of the project is estimated at around Rs.50 cr. to be funded through term debt of Rs.20 cr. and balance by the internal accruals of the company. The capex is planned in a phased manner with a cost of Rs.35 cr. planned to be incurred in FY25 and balance is to be undertaken in Q1FY26. The commercial production of the enhanced capacity is expected to get operational from Q2FY26.
The company is expected to cater clients of southern region of India which will help to reduce transportation costs. However, considering the size of the capex vis-a-vis the networth of the entity, Timely completion of the same within the envisaged cost along with generation of the envisaged benefits thereof shall remain a key rating monitorable.

Susceptibility of profitability to raw material price volatility
Profitability of the company remains susceptible to volatility in raw material prices. The raw material is the major cost driver and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of steel being major cost components amongst all materials.

Competitive industry with tender-based nature of operations along with execution challenges
The infrastructure sector in India is highly fragmented and competitive with several small and mid-sized players. This, coupled with the tendering process in order procurement, results in intense competition within the industry, fluctuating revenues and restrictions in profitability. All these projects are tender-based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Additionally, the continued increase in execution challenges, including regulatory clearances, aggressive bidding, interest rate risk, are other external factors that affect the credit profiles of industry players. However, the promoter’s long industry experience of over a decaded mitigates this risk to some extent.

Liquidity: Adequate
SSIPL has adequate liquidity characterised by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations and stable operating cycle of 17 days (FY23: 27 days) during FY24. The company has reported positive cash flow from operations of Rs.33.95 cr. in FY24 (Rs.33.96 cr. in FY23) and the average utilization of fund-based working capital limits remained moderate at 13% for the past 12 months ended March 2024.
The company has low scheduled debt repayments of around Rs.4-8 crore over the next three years ended FY27; however, generation of adequate cash flows for meeting the requirement of the upcoming capex shall remain crucial for its liquidity profile. The current ratio and quick ratio of the company remained adequate 1.49 and 1.01 respectively at FY24 end (FY22: 1.39 and 0.89).

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Other Construction Materials	Other Construction Materials

Incorporated in 2011, Ahmedabad-based Smith Structures (India) Private Limited is engaged in design, fabrication and erection of pre-engineered buildings (PEBs). The company has capacity of around 72000 ton per annum. The company is managed by Panchal family. The company manufacturers quality building system components such as columns, beams, sheeting and secondary structural items which find application in refineries, oil and gas, high rise structures, steel plants and thermal plants, amongst others. Company also exports its structures to various clients in countries such as Middle East and Africa.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	377.65	458.73	646.33
PBILDT	20.49	30.49	53.94
PAT	7.76	13.47	31.04
Overall gearing (times)	2.55	0.96	0.44
Interest coverage (times)	4.68	7.59	20.61

A: Audited, Prov.:Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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-Term Loan		-	-	November 2029	24.00	CARE BBB-; Stable
Fund-based-Long Term		-	-	-	45.00	CARE BBB-; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	41.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	50.00	CARE BBB-; Stable / CARE A3

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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ST	41.00	CARE BBB-; Stable / CARE A3				
2	Fund-based-Long Term	LT	45.00	CARE BBB-; Stable				
3	Fund-based - LT-Term Loan	LT	24.00	CARE BBB-; Stable				
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	50.00	CARE BBB-; Stable / CARE A3				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-Long Term	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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