

Simplex Engineering & Foundry Works Private Limited

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	16.00	CARE BBB-; Positive	Reaffirmed
Short-term bank facilities	39.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Simplex Engineering and Foundry Works Private Limited (SEFWPL) factors in improvement in scale of operations despite moderation in operating margins in FY24. Ratings continue to derive strength from the company's long track record with considerable experience of promoters, satisfactory order book position with reputed customer base, comfortable capital structure, diversified product portfolio, locational advantage and significant support extended by promoters as unsecured loans and pledge of liquid investments to raise debt for meeting high working capital requirement.

Ratings continue to remain constrained from working capital intensive operations despite improvement in FY24, volatility input costs with majority of orders being fixed price in nature and intense competition with tender based operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving operating profitability with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin over 12% and operating income above ₹250 crore on a sustained basis.
- Steadily flowing orders and timely execution of the order book.
- Improving operating cycle to less than 200 days on a sustained basis.

Negative factors

- Significantly increasing inventory level and/or collection period.
- Deteriorating debt coverage indicators or capital structure (overall gearing > 1.5x).
- Significantly declining sales or profitability margins.

Analytical approach: Standalone.

Outlook: Positive

Continuation of 'Positive' outlook on the company's long-term ratings factors in the expected sustenance of improved scale of operations and profitability level, while sustaining improved working capital cycle. The outlook shall be revised to 'Stable' in case of the company's lower-than-envisaged performance or deteriorating working capital cycle.

Detailed description of key rating drivers:

Key strengths

Improving scale of operations despite moderating operating margins in FY24

The company's total operating income (TOI) increased by 33% in FY24 to ₹252 crore from ₹189.30 crore in FY23 driven by steady order book position and faster execution of order. However, SEFWPL's operation is highly capital intensive, which is reflected through fixed assets turnover ratio of 1.29x in FY24 (PY:0.90x).

The company's operating margin witnessed moderation in FY24 due to change in order book mix. Unlike earlier, the company is getting orders of shorter tenure but with lower margins. This has resulted in moderate profitability but timely realisation and lower inventory holding. PBILDT and profit after taxation (PAT) stood at ~₹22 crore and ₹11.50 crore in FY24, respectively.

The company's sales stood at ~₹82 crore till July 25, 2024.

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

Satisfactory order book position amidst diversification in FY24

The company has an unexecuted order book of ₹234 crore as on July 20, 2024 (₹249.05 crore as on January 1, 2024), which is 0.92x of its gross sales in FY24. The company's order book witnessed diversification in FY24 marked by order from railway constitutes ~28% (PY: 21%), steel ~31% (PY: 49%), oil and gas ~32% (PY: 16%), mining ~7% (PY: 6%) and others ~2% (PY: 7%). Post-receipt of approval from American Petroleum Institute (API) for sucker rod pump used in oil and gas industry, the company started receiving regular orders from ONGC. This has led to increase in orders from this business segment helping the company to diversify its business. The company is in discussion with ONGC, Durgapur Steel plant, and Indian Railway for another around of sucker pumps order. Receipt of such orders shall remain a key rating monitorable.

Diversified product portfolio catering to varied industries and reputed clientele

SEFWPL is engaged in heavy fabricating and designing magnetic frames, grab buckets, parts of windmill and thermal plants, relaying machines, wagon, and bogeys, among others, used in core industries such as steel, power, railways, and mining. This allows SEFWPL to diversify industry concentration risk. SEFWPL's client base comprises around 90% large private players and public sector undertakings (PSUs) such as ONGC, Tata Steel, Orissa Metallurgical, Eastern Coalfields, BHEL, Indian Railways, SECL, and Chittaranjan Locomotives among others; the client base largely remained consistent over the years in addition to new customer acquisition.

Experienced promoter with long and satisfactory track record of the company

Vijay Shah, CMD is a third-generation entrepreneur, having around two decades of experience in heavy fabrication industry. Promoter's family has been engaged in manufacturing heavy engineering castings since 1941 and is well-known as an equipment builder, technology supplier, and turnkey contractor for large projects. The company's daily affairs are managed by the CMD with adequate support from experienced employees having long association with the company.

Locational advantage from proximity to raw material sources, reducing freight costs

Several power and steel plants are housed in Chhattisgarh as it is rich in minerals and coal. SEFWPL gets regular orders for equipment from these players, as they enjoy benefit on product and freight cost by virtue of its strategic location. Over 90% raw material used by SEFWPL comprises steel (low carbon, high tensile) procured largely from large integrated steel plants (SAIL and Jindal Steel and Power Limited) in the vicinity. Being situated in suppliers' vicinity, it results in relatively lower cost procurement in terms of freight cost.

Continuous infusion of unsecured loan by promoters

SEFWPL's promoters demonstrated support and infused unsecured loan at regular intervals to fund its incremental working capital requirement and routine capex. Promoters have also supported through overdraft (OD) facility availed against units of fixed maturity plan (FMP) from directors and relatives to fund working capital requirement in absence of regular working capital limits from banks. Majority debts in books is from promoters, either directly or backed by pledged FMPs. Total debt of ₹116 crore outstanding (o/s) as on March 31, 2024, primarily comprised unsecured loan from promoters of ₹101 crore (₹97 crore as on March 31, 2023) and OD backed by FMP of ₹1.57 crore. This has been utilised to extend inter-corporate deposits (ICDs) to unrelated parties at an interest rate of 12-15% per annum and partly to fund inventory.

Comfortable capital structure

The company's overall gearing remains satisfactory at 0.82x as on March 31, 2024, against 0.93x as on March 31, 2023. Majority debt (comprising 88% of o/s debt) consists of unsecured loan from directors/relatives and OD against FMP (Fixed Maturity Plan) units of directors/related parties. Total debt levels remained stable at ~116 crore in FY24. Adjusted gearing (without considering USL as debt) stood at ~0.11x as on March 31, 2024 (PY: 0.19x).

Key weaknesses**Working capital intensive operations despite improvement in FY24**

The company's working capital cycle consistently improved in the last three fiscals from 324 days in FY22 to 299 days in FY23 and 242 days in FY24 due to focus on orders with shorter execution period (especially in steel segment) where inventory holding period is lower (from 6-7 months currently as compared to 12-14 months earlier). Majority inventory and receivable is funded through promoter funds.

Further, due to orders received from oil and gas segment with 6–9-month duration, inventory holding period is expected to improve further going ahead.

Volatility in prices of raw materials and finished goods

SEFWPL operates on moderate margins and raw material is one of the major cost drivers. Hence, profitability is sensitive to adverse price movement of finished goods and/or raw materials, especially considering delay in material picked up by the client. The company has majority of fixed price contracts in its present order book, limiting its ability to pass on price increase to its customers through a price escalation clause.

Intense competition in the industry with tender based operations

SEFWPL's orders are tender-based and revenues depend on the company's ability to bid successfully for these tenders. Margins come under pressure due to competition.

Liquidity: Adequate

The company's liquidity remains adequate as marked by sufficient cushion in accruals against nominal repayment obligations. The company generated gross cash accrual (GCA) of ~₹18 crore in FY24 as against debt obligation of ₹0.30 crore for vehicle loan. As on July 25, 2024, the company has ₹10 crore cash credit limits, ₹25 crore bank guarantee limits and ₹35 crore working capital limits, fully backed by 100% fixed maturity plan of directors and related parties. Cash credit utilisation limits remain low at ~10%, as articulated by lenders.

Going forward, the company's liquidity profile is projected to remain adequate as GCA will remain adequate to meet its debt repayment obligations of ₹1.40 crore in FY25.

Environment, social, and governance (ESG) risks: Not applicable.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

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

[Withdrawal Policy](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial manufacturing	Industrial products

SEFWPL was constituted in 1941 as a partnership firm, by (Late) Bhanji Monji Shah (grandfather of CMD Vijay Shah). The firm was converted into private limited company in 1980. SEFWPL is engaged in structural fabrication and manufacturing equipment for core sectors such as steel, railway, power, (thermal, hydel, wind), mining, cement, material handling, oil, defence, roads, and construction. The company operates through its units in Bhilai, Chhattisgarh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	189.30	252.04
PBILDT	19.27	22.07
PAT	11.21	11.49
Overall gearing (times)	0.93	0.82
Interest coverage (times)	2.27	2.22

A: Audited; P: Provisional; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Annexure-2

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

Complexity level of 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-Cash Credit	-	-	-	-	16.00	CARE BBB-; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	39.00	CARE A3

Annexure-2: Rating history for 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 - LT-Cash Credit	LT	16.00	CARE BBB-; Positive	-	1)CARE BBB-; Positive (07-Feb-24) 2)CARE BBB-; Positive (03-Apr-23)	1)CARE BBB-; Stable (05-Apr-22)	-
2	Non-fund-based - ST-BG/LC	ST	39.00	CARE A3	-	1)CARE A3 (07-Feb-24) 2)CARE A3 (03-Apr-23)	1)CARE A3 (05-Apr-22)	-

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of instruments rated

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