

Sawan Engineers Private Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	42.13 (Reduced from 43.78)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	16.00 (Enhanced from 12.00)	CARE BBB; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities	13.50 (Enhanced from 10.00)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sawan Engineers Private Limited (SEPL) continue to derive strength from vast experience of its promoters, established track record of operations in pipe fittings industry, and reputed although concentrated clientele. The ratings also factor in SEPL's healthy profitability, moderate capital structure as well as debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained by SEPL's moderate scale of operations, susceptibility of the profitability to volatile raw material prices and forex fluctuation and its presence in a competitive and fragmented pipe fittings industry. The ratings also take cognisance of a debt-funded capex being undertaken by the company for the expansion of its manufacturing capacity. CARE Ratings Limited (CARE Ratings) notes the time overrun in the completion of the said capex, albeit with no cost overrun. The rating assigned to four of the term loan has been withdrawn based on the receipt of the no dues certificate from the lender that had extended these facilities rated by CARE.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-driven sales growth resulting in total operating income (TOI) exceeding Rs. 250 crore and maintenance of PBILDT margin above 20%.
- Improvement in return on capital employed (ROCE) above 25% on a sustained basis as well as maintenance of overall gearing below 0.50x.

Negative factors

- Decline in TOI by 20% from current level and/or operating profit margin below 15% on a sustained basis.
- Increase in working capital requirement or any major debt-funded capex leading to deterioration in overall gearing to more than 1.25x.
- Deterioration in debtor days to more than 130 days.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that SEPL is likely to maintain steady growth in its operating performance and profitability backed by experience of its promoters and enhancement being undertaken in manufacturing capacity which is expected to result in improved operating efficiency. The Stable outlook also reflects expected sustenance of a moderate capital structure and adequate liquidity profile.

Detailed description of key rating drivers:

Key strengths

Vast experience of promoters and established track record of operations

Jaswant Jagwani, promoter, has more than 25 years of experience in the pipe fittings industry. The other promoter, Ashok Tanwani also has over 15 years of industry experience. SEPL is engaged in the manufacturing of pipe fittings and has an established track record of operations of over two decades in pipe fittings manufacturing industry.

Reputed but concentrated clientele with various certifications and approvals in place

SEPL supplies to reputed clientele across industries including reputed public sector undertakings (PSUs) and key large-scale private players. SEPL is also an approved vendor for its pipe fitting products with reputed players in energy sector including Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL). The company has long-standing relationship with its major clients due to stringent control over quality and adequate certification in place, for its product and manufacturing

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

facility, from the leading international agencies. SEPL receives order through both tenders as well as direct enquiry-based orders from organisations where it is an approved supplier.

Healthy operating profitability

SEPL has wide product offering which is customised as per customer requirement. The PBILDT margin of the company remained healthy at 15.81% in FY24 (FY23: 15.48%). With the moderate depreciation and interest and finance cost, profit after tax (PAT) margin also remained healthy at 6.16% in FY24 (FY23: 5.63%). With the healthy profitability which improved in FY24 over FY23, GCA to grew from Rs. 13.61 crore in FY23 to Rs.11.45 crore in FY23.

Going forward, CARE Ratings anticipates an improvement in profit margins due to its strategic focus on high-margin products and the projected growth in scale of operations.

Moderate capital structure and debt coverage indicators

Capital structure of SEPL continued to remain moderate with overall gearing of 0.73x at FY24 end (P.Y:0.59x). The company is undertaking capex of around Rs.30 crore which is being funded through term loan of Rs.17.50 crore and balance through internal accruals. The said capex is for the expansion of manufacturing space and integration of its manufacturing facilities, to single location, which is presently at three different locations. The project is envisaged to be completed by FY25 end, as compared to earlier estimate by end of FY24, The delay is largely due to delay in financial closure. The first phase of the capex is envisaged to be completed by end of October 2024 and second phase by end of March 2025. Post moving to its new facility, company plans to sell its existing land and building, proceeds of which will be utilised for the term loan repayments/ pre-payment. During FY24, company has completed capex of around Rs.20 crore and remaining Rs.10 crore shall be completed during FY25. It has sold once land and building parcel and pre-paid term loan of Rs.6.70 crore as on August 31, 2024. The debt coverage indicators also remain moderate as marked by PBILDT interest coverage of 5.58x (P.Y:5.28x) and total debt/GCA of 3.91 years (P.Y:3.82 years) in FY24.

Key weaknesses

Moderate scale of operations

SEPL operates in the niche pipe fittings industry, wherein it offers a product portfolio including bends, flanges, tees and elbow fittings. During FY24, TOI of the company grew by 19% on y-o-y basis, however it continues to remain moderate at Rs.126 crore (FY23: Rs. 106 Crore). The growth in scale was backed by increase in sales volume as well as improvement in the sales realisation. Furthermore, SEPL reported sales of Rs. 23.51 crore during Q1FY25 (refers to the period April 01 to June 30). Also, SEPL has an order book on hand of Rs. 66.64 crore as on Sep 12, 2024, with an average order execution period of 4 to 5 months.

Susceptibility of profitability to volatile raw material prices and forex fluctuation

Over the past three years ended FY24, the raw material cost formed a major portion of SEPL's total cost of sales at an average of 50-60%. SEPL receives some portion of its orders through tenders while the balance is direct enquiry-based. For the orders which do not carry any price variation clause, SEPL endeavours to build in the volatility in the sales price quotation and major inventory is order backed. However, SEPL's profitability remains exposed to the adverse movement in its raw material prices, i.e., steel plates and scrap, especially in light of a sizeable inventory holding period. Also, CARE Ratings notes that company imports steel plates of specific grades as per order requirement. In absence of proper hedging mechanism this exposes SEPL to forex risk.

Presence in a competitive and fragmented pipe fitting industry albeit stable demand prospects

SEPL derives its revenue from industries, such as oil & gas, power, chemicals, and fertilizers. Its revenue stream is largely linked to new investment in these sectors considering low replacement demand for these products. Also, the fragmented nature of the industry with the presence of large number of small and mid-sized players. However, this is overcome to some extent by SEPL's product profile wherein certain customised and precision products are manufactured by only few players across South Asian countries and being an approved vendor for majority of clientele. The demand for pipe fittings is expected to improve going forward with the government's thrust to improve infrastructure is also expected to augur well for industry players.

Liquidity: Adequate

The liquidity of the company is adequate with adequate cash accrual generation against the scheduled repayment obligations and moderate utilisation of fund based working capital limits which remained moderate at 73% for trailing 12 months ended August, 2024. The cashflow from operations remained positive at Rs. 16.24 crore (PY: Rs. 14.54 crore). SEPL had free cash and bank balances of Rs. 0.57 crore (excluding lien marked FD of Rs. 2.64 crore) as on March 31,2024. Though it has elongated operating cycle due to large working capital requirement, the same improved to 129 days during FY24 as against 155 days in FY23. The improvement in the operating cycle was largely due to decrease in the average inventory days. Collection period stood at 112 days in FY24 as against 121 days in FY23. The company maintains a large inventory owing to a variety of products offered. Credit period offered to the customers generally ranges between 3-4 months and certain amount of the order is retained with the customer in the form of Retention money which results in a high collection period. However, since majority of these are reputed clients, it reduces the counterparty risk to a certain extent. SEPL furnishes a performance guarantee ranging from 9 to 12 months for the goods supplied, to select clients. Large part of the dues is from top 10 customers. Majority of these are reputed clients which reduces the counterparty credit risk to a large extent.

Assumptions/Covenants: Not applicable

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](#)

[Short Term Instruments](#)

[Withdrawal Policy](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Vadodara-based (Gujarat) SEPL was incorporated in 2007 by Jaswant Jagwani. In 2010, SEPL took over operations of Sawan Engineers, which was established as proprietorship firm in 1991. SEPL is engaged in the manufacturing of pipe fittings which finds its application in industries such as petrochemicals, power, chemicals, and oil & gas. SEPL operated with an installed capacity of 7,500 Metric Tonne Per Annum (MTPA) as on March 31,2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30,2024 (UA)
Total operating income	106.18	126.36	23.51
PBILDT	16.44	19.98	NA
PAT	5.97	7.78	NA
Overall gearing (times)	0.59	0.73	NA
Interest coverage (times)	5.28	5.58	NA

A: Audited UA: Unaudited; Note: these are latest available financial results NA: Not available

Status of non-cooperation with previous CRA: CRISIL vide his PR dated May 09, 2024, has continued the rating of SEPL under INC category owing to lack of information.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	28.50	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	August 2027	13.63	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	16.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	-	13.50	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-Term Loan	LT	13.63	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-23)	1)CARE BBB; Stable (20-Oct-22)	1)CARE BBB; Stable (24-Sep-21) 2)CARE BBB; Stable (01-Apr-21)
2	Fund-based - LT-Cash Credit	LT	28.50	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-23)	1)CARE BBB; Stable (20-Oct-22)	1)CARE BBB; Stable (24-Sep-21) 2)CARE BBB; Stable (01-Apr-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	16.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Oct-23)	1)CARE BBB; Stable / CARE A3+ (20-Oct-22)	1)CARE BBB; Stable / CARE A3+ (24-Sep-21) 2)CARE A3+ (01-Apr-21)
4	Non-fund-based - ST-Letter of credit	ST	13.50	CARE A3+	-	1)CARE A3+ (04-Oct-23)	1)CARE A3+ (20-Oct-22)	1)CARE A3+ (24-Sep-21) 2)CARE A3+ (01-Apr-21)

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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

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

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About us:

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