Salasar Techno Engineering Limited
April 14, 2017

Ratings

S.No	Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
(i)	Long-term bank facilities (Term loan)	-	**CARE BB+**	**Withdrawn**
(ii)	Long-term Bank Facilities	40 (Enhanced from 37.50)	**CARE BBB; Stable [Triple B, Outlook: Stable]**	**Suspension revoked and Revised from CARE BB+ [Double B Plus]**
(iii)	Short-term Bank Facilities	60 (Enhanced from 7.50)	**CARE A3+ [A Three Plus]**	**Suspension revoked and Revised from CARE A4+ [A Four Plus]**
	Total Facilities	**100 (Rupees One Hundred crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Rating Rationale

CARE has withdrawn the rating assigned to the (i) term loan facility of Salasar Techno Engineering Limited (STEL) with immediate effect, as the company has repaid the term loan and there is no amount outstanding under the said loan as on date.

The revision in the ratings assigned to the {(ii) and (iii)} bank facilities of Salasar Techno Engineering Limited (STEL) takes into account the improvement in the company's operational performance marked by healthy growth in the total income with expansion in profitability margins and improvement in its gearing as well as debt protection metrics. The revision in the ratings also factor in significant reduction in exposure towards its subsidiary company in the form of corporate guarantee. The ratings continue to factor in STEL's experienced promoters, its long track record of operations, reputed customer base and moderate order book position. However, the ratings are constrained by working capital intensive nature of operations, limited track record in executing projects in power transmission & distribution sector, susceptibility of margins to volatility in raw material prices and highly competitive nature of industry.

Going forward, the company's ability to sustain growth in total income and expansion in profitability margins, effectively manage its working capital cycle and maintain a moderate gearing shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total income with expansion in profitability margins: STEL's total operating income grew at a CAGR of 21% over the period of FY12-FY16 (refers to the period April 01 to March 31). The growth in the total operating income was largely driven by healthy order flow for supply and erection of telecom towers. STEL's PBILDT margins also improved from 6.79% in FY14 to 7.67% in FY16 due to increase in sales and higher margin orders executed by it. STEL's PAT margin also improved from 2.45% in FY14 to 3.21% in FY16 due to higher operating margin coupled with reduction in interest cost. The improvement has continued in the current year driven by healthy order flow in telecom segment coupled with higher execution of orders in power transmission & distribution segment (T&D).

Reduction in exposure towards subsidiary & improvement in gearing and debt metrics: The total exposure of STEL's towards its wholly owned subsidiary Salasar Stainless Limited (SSL) in the form of corporate guarantee, investments and loans reduced to Rs.27.99 crore as on March 31, 2016 from Rs.58.44 crore as on March 31, 2014. STEL's overall gearing improved to 0.59x as on March 31, 2016 (0.89x as on March 31, 2014) on account of scheduled repayment of term loans and accretion of profits to net worth. The company's debt coverage metrics also improved on account of higher PBILDT, reduction in interest cost due to lower total debt and healthy cash accruals.

Experienced promoters and long track record of operations: STEL is owned and promoted by the members of the Agrawal family of Delhi with extensive industry experience. The company has a long track record of operations for more

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

than 16 years coupled with experienced promoter's aid in better understanding of business cycle and having established relationships with the customers and suppliers.

Reputed customer base and moderate order book: STEL has established relations with most of the reputed players in the telecom industry and continues to receive repeated orders from them. The association with such reputed players assures continuity of the orders but also minimizes the risk of counterparty default. STEL had an order book of Rs.307 crore as on January 31, 2017 (1.10x of FY16 total operating income) to be executed over the next 6-8 months. The moderate order book position coupled with regular orders for telecom towers reflects adequate revenue visibility for the company in the medium term.

Key Rating Weaknesses

Working capital intensive nature of operations: The operations of the company are working capital intensive in nature as reflected by cycle of 101 days as on March 31, 2016 (PY: 87 days). STEL's operations are working-capital intensive in nature due to its relatively long lead manufacturing time of about 3 to 4 weeks and sizeable amount of inventory required for the fabrication work. Working capital needs are further enhanced owing to differential credit period with suppliers and customers as reflected by collection period of 60 days as on March 31, 2016 (PY: 61 days) and payable period of 21 days as on March 31, 2016 (PY: 35 days). Furthermore, in current year, the company has increased its focus in power T&D sector which may further elongate its working capital cycle. The average utilization of fund-based limits remains moderate at 69% for the last 12 months ending January 2017.

Limited track record of operations in executing projects in power transmission & distribution sector: In the past years, the majority of revenue was driven by telecom tower with telecom tower segment contributing 3/4th to the total operating income. However, from FY17 onwards, apart from telecom tower business, the company increased supply and erection of towers and transmission lines for power T&D sector along with supplying structures for mounting of solar modules. The company has limited track record in the execution of projects in power T&D sector which is highly competitive in nature due to tender-based nature of business. It also involves substantial working capital requirements due to longer execution period and risks related to delayed payments from the utilities. However, the company has been able to demonstrate its ability to execute large projects and also the payment track record is satisfactory for the projects under execution which mitigates the risk related to increase in the working capital intensity pursuant to STEL's diversification in power T&D sector to some extent.

Susceptibility of margins to volatility in prices of raw material: The operations of the company are raw material intensive in nature as reflected by raw material cost constituting 76% of total cost of sales in FY16 (PY: 78%). STEL requires inputs like steel, copper, zinc etc. prices of which are highly volatile in nature, and the company is thus exposed to the risk of price volatility. However, STEL has lower risk of volatile raw material prices due to the price variation clause in its agreements with clients.

Highly competitive industry: The steel fabrication is highly fragmented and competitive in nature with high competition among organized as well as unorganized players. There is dependence of the industry on overall improvement in the economy leading to higher demand in telecom and power sector. The highly fragmented and competitive nature of the industry pressurizes overall profitability of the players. Furthermore, the tender-based nature of power transmission and distribution sector with presence of numerous small and large players has bearing on the profitability margins of the industry players.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the company

STEL was incorporated in 2001 by Mr Alok Kumar and Mr Gyanendra Kumar Aggarwal. The company engineers, designs and fabricates steel structures for telecom and solar sectors along with undertaking supply and erection of towers and transmission lines in power transmission and distribution sector (T&D). The company has an ongoing technical tie-up with Ramboll Telecom, Denmark, for the supply of design for tubular telecom towers. The company's manufacturing facilities are situated in Hapur with an installed capacity of 50,000 MTPA as on March 31, 2016. Its wholly-owned subsidiary

Salasar Stainless Ltd (SSL) is engaged into manufacturing of stainless steel pipes and tubes and also undertakes job work for STEL at its manufacturing facility situated in Hapur, Uttar Pradesh.

During FY16, STEL reported total operating income of Rs.276.15 crore, PBILDT of Rs.21.18 crore and PAT of Rs.6.86 crore. Furthermore, during 9MFY17 (refers to the period April 01 to December 31) (provisional), it reported total operating income of Rs.240.34 crore, PBILDT of Rs.24.43 crore and PAT of Rs.12.18 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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:

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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-Cash Credit	-	-	-	40.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	60.00	CARE A3+

Annexure-2

Rating History for last three years:-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Suspended (08-Feb-16)	1)CARE BB+ (22-Aug-14)
2.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB; Stable	-	-	1)Suspended (08-Feb-16)	1)CARE BB+ (22-Aug-14)
3.	Non-fund-based - ST-Bank Guarantees	ST	60.00	CARE A3+	-	-	1)Suspended (08-Feb-16)	1)CARE A4+ (22-Aug-14)

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