Salasar Techno Engineering Limited

July 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	88.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	95.00 (Enhanced from 75.00)	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**183.00 (Rupees One Hundred eighty three crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Rating Rationale

The ratings assigned to the bank facilities of Salasar Techno Engineering Limited (STEL) continues to takes into account the extensive experience of promoters, the company's long track record and strong operational performance marked by growth in total income and improvement in profitability margins. The ratings also factor in STEL's reputed customer base, adequate order book position and its comfortable financial risk profile marked by comfortable gearing and healthy debt coverage indicators. However, the ratings are constrained by working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices and highly competitive nature of industry.

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: Salasar group is owned and promoted by the members of the Agrawal family of Delhi with extensive industry experience. The group has a long track record of operations for more than 17 years, which coupled with extensive experience of the promoters helps in better understanding of business cycles and develop established relationships with the customers and suppliers.

Growing scale of operations with improved profitability margins: During FY18 (refers to the period April 1 to March 31), the group has registered a significant growth in total operating income of 28.74% to Rs.496.77 crore, which is largely driven by execution of orders coupled with regular inflow of orders from various telecom and power distribution companies. Its PBILDT margins improved to 11.12% in FY18 from 10.15% in FY17 due to better operating efficiency owing to economies of scale, higher margins orders executed as well as increased revenue from the job-work activity. Consequently, PAT margin also improved to 5.96% in FY18 from 4.84% in FY17.

Reputed customer base and adequate order book: The group has established relations with most of the reputed players in the telecom industry and continues to receive repeat orders from them. The group had an order book of Rs.190.84 crore for power T&D business and Rs.134.00 in telecom and other businesses as on May 31, 2018 which reflects adequate revenue visibility for the company in the medium term.

Comfortable financial risk profile: Despite higher debt levels, the overall gearing of the company improved to 0.69x as on March 31, 2018 from 0.84x on March 31, 2017 on the back of higher net-worth attributable to public issue in July 2017 and accretion of profits. The interest coverage also improved to 6.56x in FY18 (FY17: 5.26x) on account of improvement in

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

PBILDT margins and interest cost largely being under control. Its total debt to gross cash accruals also improved to 3.32x as on March 31, 2018 on account of healthy increase in cash accruals (3.78x as on March 31, 2017).

Key Rating Weaknesses

Working capital intensive nature of operations: The group's operating cycle elongated to 118 days on March 31, 2018 (PY: 91 days), due to increase in collection period to 85 days from 63 days. It also need to maintain adequate inventory due to longer lead manufacturing time of about 3 to 4 weeks and sizeable amount of inventory required for the fabrication work as reflected by average inventory of 65 days as on March 31, 2017 (PY: 60 days). As a result, the average utilization of fund-based limits remained at around 81% for the last 12 months ending May 2018.

Susceptibility of margins to volatility in prices of raw material: The operations of the group are raw material intensive in nature with raw material cost constituting around 77% of total cost of sales in FY18 (PY: 72%). The key raw material required include steel, copper, zinc, etc, which are volatile in nature, and the group is thus exposed to the risk of price volatility. However, Salasar group has lower risk of volatile raw material prices due to the price variation clause in its sales agreements with the clients.

Highly competitive industry: The steel fabrication industry is highly fragmented and competitive in nature with presence of several 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 in the industry. Furthermore, profitability margins are also susceptible to the tender based nature of power transmission and distribution sector.

Analytical approach: Since, STEL and its wholly owned subsidiary are engaged into similar of business, and have significant operational linkages, a consolidated approach has been considered in the credit risk assessment.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for manufacturing companies](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[Criteria for Short Term Instruments](#)
[Financial ratios – Non-Financial Sector](#)

About the group

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 1,00,000 MTPA as on March 31, 2018. Salasar Stainless Ltd (SSL) is the wholly-owned subsidiary of STEL. The company 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	385.87	496.77
PBILDT	39.15	55.23
PAT	18.69	29.62
Overall gearing (times)	0.84	0.69
Interest coverage (times)	5.26	6.56

A: Audited

Status of non-cooperation with previous CRA: CRISIL BBB-/Stable/CRISIL A3 (Issuer Not Cooperating; Rating Reaffirmed) vide press release dated February 27, 2018

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:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	88.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	95.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (14-Apr-17)	-	1)Suspended (08-Feb-16)
2.	Fund-based - LT-Cash Credit	LT	88.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (29-Dec-17) 2)CARE BBB; Stable (14-Apr-17)	-	1)Suspended (08-Feb-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	95.00	CARE A2	-	1)CARE A2 (29-Dec-17) 2)CARE A3+ (14-Apr-17)	-	1)Suspended (08-Feb-16)

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