Salasar Techno Engineering Limited

December 29, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	90 (Enhanced from 40.00)	**CARE BBB+; Stable (Triple B plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Short-term Bank Facilities	75 (Enhanced from 60.00)	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Total	**165 (Rupees One Hundred Sixty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Salasar Techno Engineering Limited (STEL) takes into account the improvement in the Salasar group's financial risk profile consequent to raising of funds via Initial Public Offer (IPO) in STEL during H1FY18 (refers to the period April 1 to September 30) and the company's healthy operational performance marked by growth in total income and expansion in profit margins. The ratings continue to factor in extensive experience of promoters, long track record of operations, reputed customer base and an adequate order book position. However, the ratings are constrained by working capital intensive nature of operations, modest 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 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

Improved financial risk profile: The financial risk profile has improved on account of equity infusion of Rs.36 crore in STEL in July 2017, which has led to improvement in the net worth base to Rs.142.66 crore as on September 30, 2017 as compared to Rs.77.86 crore as on March 31, 2016. Consequently, the overall gearing reduced to 0.55x as on September 30, 2017 from 0.84x on March 31, 2017. Also, the interest coverage improved to 5.35x in FY17 (FY16: 3.08x) on account of improvement in PBILDT margins and reduction in the interest cost.

Healthy operational performance: Total operating income of the group grew by 24.52% y-o-y in FY17 to Rs.385.86 crore, which is largely driven by execution of orders from Reliance Jio Infocomm Ltd. and UP Power Transmission Corporation Ltd. coupled with regular inflow of orders from American Tower Corporation (ATC), Indus Towers, and Bharti Infratel Ltd. PBILDT margins also improved to 10.08% in FY17 from 8.71% in FY16 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 4.86% in FY17 from 2.24% in FY16, due to higher operating margin coupled with reduction in interest cost.

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

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 16 years, which coupled with extensive experience of the promoters helps in better understanding of business cycle and develop established relationships with the customers and suppliers.

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.380.67 crore as on November 30, 2017 (0.98x of FY17 total operating income) to be executed over the next 6-12 months. The adequate book position coupled with coupled with regular orders from reputed customer base reflects adequate revenue visibility for the group in the medium term.

Key Rating Weaknesses

Working capital intensive nature of operations: The group's operations are working capital intensive in nature as reflected by operating cycle of 104 days on March 31, 2017 (PY: 108 days) driven by average inventory and debtors of 60 days (PY: 66 days) and 69 days (PY: 66 days) respectively. Inventory holding is high due to its relatively long lead manufacturing time of about 3 to 4 weeks and sizeable amount of inventory required for the fabrication work. Collection days remain high due to credit period offered to established clientele in telecom sector and longer payment cycle in orders from power utilities. As against this, credit period availed from suppliers stood at 26 days as on March 31, 2017. Nonetheless, the average utilization of fund-based limits remained moderate at 72.97% for the last 12 months ending October 2017.

Modest track record in executing projects in power transmission & distribution sector: The group has modest 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 group 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 Salasar group's diversification in power T&D sector, to some extent.

Susceptibility of margins to volatility in prices of raw material: The operations of the group are raw material intensive in nature as reflected by raw material cost constituting around 72% of total cost of sales in FY17 (PY: 71%). The key raw material required include steel, copper, zinc etc. prices of which are highly 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 agreements with 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 September 30, 2017.

Salasar Stainless Ltd (SSL) is the wholly-owned subsidiary of STEL. The company was previously engaged in the manufacturing of stainless steel pipes and tubes. However, currently it majorly undertakes job-work for manufacturing of galvanized and non-galvanised mild steel (M.S.) structures for its holding company.

Brief Financials (consolidated) (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	309.87	385.87
PBILDT	26.99	38.93
PAT	6.94	18.76
Overall gearing (times)	0.77	0.84
Interest coverage (times)	3.08	5.36

A: Audited

Status of non-cooperation with previous CRA: CRISIL BBB-/Stable/CRISIL A3 (Issuer Not Cooperating; Rating Reaffirmed) vide press release dated July 26, 2017

Any other information: Not Applicable

Rating History for 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	-	-	-	90.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	75.00	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 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)Withdrawn (14-Apr-17)	-	1)Suspended (08-Feb-16)	1)CARE BB+ (22-Aug-14)
2.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB+; Stable	1)CARE BBB; Stable (14-Apr-17)	-	1)Suspended (08-Feb-16)	1)CARE BB+ (22-Aug-14)
3.	Non-fund-based - ST-Bank Guarantees	ST	75.00	CARE A2	1)CARE A3+ (14-Apr-17)	-	1)Suspended (08-Feb-16)	1)CARE A4+ (22-Aug-14)

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