Sharvaya Metals Private Limited

September 03, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	12.92	**CARE BB-;Stable (Double B Minus; Outlook:Stable)**	**Revised from CARE BB; Stable (Double B; Outlook : Stable)**
Total facilities	**12.92 (Rupees twelve crore and Ninety two lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Sharvaya Metals Private Limited (SMPL) takes into account the stress in liquidity marked by very high utilization of working capital limits during last three months ended in July 31, 2019. The rating continues to be constrained on account of nascent stage of operations along with moderate profit margins, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations, susceptibility of profit margins to volatile material prices and presence in competitive and fragmented industry. The rating however, continues to derive strength from experienced promoters in the industry and association with reputed utensil brands and established group presence in aluminum extrusion industry. Ability of SMPL to increase its scale of operation while improving profitability amidst intense competition and to improve its capital structure along with efficient management of its working capital requirement remain the key rating sensitivity.

Detailed description of key rating drivers

Key Rating Weaknesses

Weak liquidity position

The liquidity position stood weak with very high working capital utilization and it remained fully utilized during in last three months ending July 2019. Further, the current ratio stood modest at 1.18x as on March 31, 2018 and free cash and bank balance also remained low at Rs. 0.01 crore as on March 31, 2018.

Nascent stage of operations along with moderate profit margins

Company being at nascent stage with FY18 being the first year of operation, its scale of operations remained modest with total operating income (TOI) of the company of Rs. 30.51 crore with net profit of Rs. 0.56 crore in FY18. Further company has recorded total operating income of Rs. 36.15 crore during 10MFY19. Further the tangible net worth of the company remained small at Rs. 6.40 crore as on March 31, 2018 due to low capitalization with only one year of operational performance and moderate profitability.

Further the PBILDT margin of SMPL remained moderate at 6.71% and PAT margin stood at 1.82% in FY18 due to higher interest cost .

Leveraged capital structure and weak debt coverage indicators

Capital structure of the entity remained leveraged on account of higher debt level due to high dependence as the working capital requirement and low net worth base. However overall gearing of the company improved further to 2.09x as on March 31, 2018 from 4.76x as on March 31, 2017 on account of increase in net worth base due to accretion of profit and subordination of unsecured loan of Rs. 3.00 crore in FY18 as per the terms of bank sanction letter.

The debt coverage indicators also remained weak with interest coverage ratio in the range of 1.64x to 1.62x and total debt to gross cash accruals at 16.50x in FY18 due to high reliance on working capital borrowings andlow gross cash accruals

Working capital intensive nature of operations

Operations of SMPL are working capital intensive mainly on account of funds being blocked in receivables (avg. collection period is 80 days) as company offers credit period of around two to three months. Further entity has moderate inventory period of 34 days as it has to maintain sufficient inventory to execute the order in timely manner. It gets around one month of credit period from its suppliers (avg. creditors period is 49 days). Therefore, operations of the company remain working capital intensive leading to working capital cycle period of 66 days in FY18 and full utilization of its working capital limit for past twelve months ended January 2019.

Susceptibility of profit margins to volatile material prices

The material is the major cost driver (constituting about 97% of total cost of sales in FY18) and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of the aluminum

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

scrap being major cost components amongst all materials are volatile in nature. Accordingly, the profitability margins of the entity are susceptible to fluctuation in material prices. However SMPL pass on the increase in prices of raw material to the clients.

Presence in competitive and fragmented industry

SMPL operates in a highly competitive and fragmented aluminum product industry. The entity witnesses intense competition from both the other organized and unorganized players domestically and globally. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

Key Rating Strengths

Experienced promoters in the industry and association with reputed utensil brands: SMPL is managed by Mr. Shreyas Katariya and Ms. Seema Bhalgat who have more than a decade of experience in the business. Directors are further assisted by second line of management and experienced force of labourer who undertake day to day activities. Company has established relationship with various suppliers and customers in the short span of time which is enabling continuous and repeated orders from client. SMPL's products are sold to authorized raw material suppliers of well-known utensil brands such as Hawkins, Prestige and Nirlep.

Established group presence in aluminum extrusion industry

Superfine group has around two decades of experience in the aluminium extrusion industry and it is managed by Katariya Family. Superfine Group backed by an experienced management has been able to generate healthy relations with reputed clientele comprising of Bhabha Atomic Research Centre (BARC), Bharat Heavy Electrical Limited (BHEL), BOSCH Automotive Electronic India Limited among others.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Sharvaya Metals Private Limited (SMPL) is a part of Superfine group which is engaged in manufacturing of aluminum extrusion products since last two decades. SMPL was incorporated as a private limited company in the year 2014 by Mr. Shreyansh Katariya and Ms. Seema Bhalgat who are having more than a decade of experience in business. Company is engaged in manufacturing of aluminum circles and billets of different measurements and sizes as per the requirement of clients.

Brief Financials (Rs. crore)	FY18 (A)
Total operating income	30.51
PBILDT	2.05
PAT	0.56
Overall gearing (times)	2.09
Interest coverage (times)	1.64

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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-Term Loan	-	-	August 2021	1.15	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	August 2021	2.77	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	9.00	CARE BB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	1.15	CARE BB-; Stable	-	1)CARE BB; Stable (14-Mar-19)	-	-
2.	Fund-based - LT-Term Loan	LT	2.77	CARE BB-; Stable	-	1)CARE BB; Stable (14-Mar-19)	-	-
3.	Fund-based - LT-Cash Credit	LT	9.00	CARE BB-; Stable	-	1)CARE BB; Stable (14-Mar-19)	-	-

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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