

Shivalik Bimetal Controls Ltd

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities (Term Loan)	2.00 (reduced from 2.44)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB; Stable [Triple B; Outlook: Stable]
Short term Bank Facilities (Non-fund-based)	40.00	CARE A2 [A Two]	Revised from CARE A3+ [A Three Plus]
Long tem/Short term Bank Facilities (Fund-based)	26.00	CARE BBB+; Stable/ CARE A2 [Triple B Plus; Outlook: Stable/ A Two]	Revised from CARE BBB; Stable/ CARE A3+ [Triple B; Outlook: Stable/ A Three Plus]
Total	68.00 (Rupees Sixty Eight crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Shivalik Bimetal Controls Limited (SBCL) takes into account the improvement in its financial risk profile during FY17 (refer to period April 1 to March 31) and H1FY18 (Unaudited) attributable to growing scale of operations, improved profitability with comfortable overall gearing and debt coverage indicators. The ratings continue to derive comfort from extensive experience of its promoters in the manufacturing of bimetal/ tri-metal strips, SBCL's long track record of operations with established market position in the industry and its reputed client base.

The ratings are; however, continue to be constrained by the working capital intensive nature of operations, SBCL's modest scale of operations and its susceptibility to foreign exchange fluctuation risk.

Going forward, the ability of the company to profitably scale up operations while efficiently managing its working capital requirements shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management team- SBCL started its operations in 1984. Being in the industry for nearly three decades, the promoters are highly experienced businessmen who handle the operations of the company directly. Mr S.S. Sandhu & Mr N.S. Ghumman have more than 40 years each in the industry.

Leading domestic manufacturer of thermostatic bimetal/ tri-metal- SBCL has a leading position in the bimetal sector owing to technical expertise, integrated & automated production facilities and a wide product range. SBCL has low competition in the domestic market as other players in the domestic market have limited technical expertise and production capabilities making SBCL a dominant player in the bimetal sector.

Reputed and diversified client base- Over the years the company has built a strong reputation for itself in the bimetal/ tri-metal industry both in the domestic and export market. Due to its long track record of operations the company has a strong relation with its clients and boasts of a strong and credible client base comprising of major domestic players as well as international players. Some of the clients of SBCL are Schneider Electric (India) Private Limited, Havells India Limited, Larsen & Tubro etc. The company also has a diversified client base as the top 10 customers formed 58.60% (PY: 56%) of the total operating income in FY17.

Growing scale of operations with high profitability - SBCL's total operating income witnessed y-o-y growth of 20% despite demonetization to Rs.118.88 crore during FY17 as against Rs.98.95 crore during FY16 on account of increase in sales of Shunts, which contributed ~31% of total operating income in FY17 as against ~14% in FY16. Also, in line with growing scale of operations SBCL's profitability has further improved.

Comfortable capital structure and coverage indicators- SBCL has a comfortable capital structure as exhibited by overall gearing ratio of 0.47x as on March 31, 2017 as against 0.67x as on March 31, 2016. The improvement was largely attributed to relatively lower working capital borrowings owing to higher utilization of free cash and accretion of profit to reserves. The coverage indicators have also improved owing to improved operating performance during FY17 led by higher profitability.

Prospects- With better industrial growth prospects and higher defence spending by the new government provides good opportunity for SBCL to tap into. Therefore, the ability of the company to maintain its growth and product quality along with improving its profitability and manage its foreign exposure risk shall be crucial for the company.

Key Rating Weaknesses

Modest scale of operations- The company has modest scale of operations as evident from total operating income which stood at Rs.118.88 crore in FY17 as against Rs. 98.95 crore in FY16 owing to higher volume sales. Modest scale of operations limits the company from deriving benefits of economies of scale.

Foreign exchange fluctuation risk- SBCL is exposed to volatility in foreign exchange risk as the company has substantial exports and imports. The risk is partially mitigated on account of natural hedging as the company is engaged in both import of raw materials and export of finished goods. However, the amount of imports is higher than the amount of exports. To mitigate the risk, the company times the payment of its imports with its exports.

Working capital intensive nature of operations- The operations of the company are working capital intensive in nature as evident by operating cycle which stood elongated at 168 days as on March 31, 2017. The high operating cycle can be pinned down to high inventory days of 90 days as on March 31, 2017 and high collection period of 104 days as on March 31, 2017. This is due to nature of business. The company generally maintains raw material inventory of around 4 months as ~97% of the raw materials are imported and include variety of alloys.

Analytical approach: Standalone

Applicable Criteria

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

About the Company

Shivalik Bi-metal Controls Limited (SBCL) was incorporated in June 1984 by Mr. S.S. Sandhu and Mr. N.S. Ghuman for manufacturing of thermostatic bimetal/tri-metal strips. SBCL manufactures different grades of thermostatic-type bimetal and tri-metal strips and parts (both clad and electron beam welded) and electron beam welded Shunt materials, etc. These products are mainly used across automotive, defense, electronics and domestic sectors. Previously, the company was also into manufacturing of components for Cathode Ray Tube (CRT); with the decline in demand for CRT's the company stopped manufacturing of the same from FY14. The company majorly derives its sales from thermostatic bimetal and trimetal strips which contributed to ~69% of the total sales in FY17. The company's sales also comprised of exports, as exports contributed to ~48 of the total sales in FY17.

The manufacturing facility of the company is located at Chambaghat, District Solan in Himachal Pradesh. The company manufactures thermostatic bimetal/ trimetal strips, shunts and also does job works for ordinance factory of Ministry of Defence.

(Rs. crore)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	98.95	118.88
PBILDT	13.63	17.99
PAT	4.33	9.14
Overall gearing (times)	0.67	0.47
Interest coverage (times)	3.50	7.26

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Term Loan-Long Term	-	-	Mar'23	2.00	CARE BBB+; Stable
Fund-based-LT/ST	-	-	-	26.00	CARE BBB+; Stable / CARE A2
Non-fund-based-Short Term	-	-	-	40.00	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.	Term Loan-Long Term	LT	2.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (21-Mar-17)	1)CARE BBB (14-Mar-16)	1)CARE BBB (24-Feb-15)
2.	Fund-based-LT/ST	LT/ST	26.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-17)	1)CARE BBB / CARE A3+ (14-Mar-16)	1)CARE BBB / CARE A3+ (24-Feb-15)
3.	Non-fund-based-Short Term	ST	40.00	CARE A2	-	1)CARE A3+ (21-Mar-17)	1)CARE A3+ (14-Mar-16)	1)CARE A3+ (24-Feb-15)

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