Shivalik Engineering Industries Limited

August 30, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	60.00	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	Reaffirmed with revision in Outlook from Stable to Positive	Simple
Total	**60.00 (Rs. Sixty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Shivalik Engineering Industries Limited (SEIL) continues to consider the close operational and financial linkages between SEIL and its group company, Shivalik Power & Steel Private Limited (SPSPL). Infomerics continues to take a combined view of these entities referred together as Shivalik Group. The ratings take into account the Shivalik group's experienced promoters, reputed clientele and locational advantage. Further, the ratings also consider improvement in Shivalik group's scale of operation in FY22 with its comfortable financial risk profile marked by satisfactory capital structure and healthy debt protection metrics. However, these rating strengths remain partially offset by its exposure to volatility in raw material prices, client concentration risk, high competition and cyclicality in the commercial vehicle segment, exposure to group concern and working capital intensive nature of its operations. The outlook has been revised from stable to positive due to expected improvement in its operating performance leading to improvement in its financial risk profile with sustained profit margin in the near to medium term.

Key Rating Sensitivities:

Upward factors

- Substantial & sustained improvement in revenue and/or profitability leading to improvement in its gross cash accruals
- Improvement in working capital management with improvement in liquidity
- Sustenance of the capital structure with improvement in debt protection metrics on a sustained basis

Downward Factors

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by stretch in receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Any unplanned capex and /or deterioration in overall gearing to over 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

  The promoters of the group Mr. Giriraj Singhania and Mr. Vishal Sharma has extensive experience in the industry of more than a decade. With long and established presence in the industry the promoters have established a strong network with suppliers and customers. Further, the promoters are well supported by a team of experienced professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background under the guidance of the promoters.

- **Reputed clientele**

  The Shivalik group cates majority of its revenue from original Equipment's Manufacturers (OEM's) of large automobile companies and has developed an established & longstanding relationship with its customers. OEMs in commercial vehicles and tractors contribute over ~80% of the group revenue over the years. The clientele of the group includes many reputed names. Strong association with these original equipment manufacturers (OEMs), results in increasing and repeat order flow. The group also caters to the railways and water works component and is increasing its contribution to the same, which will mitigate the risk of concentration on a single end-user segment to an extent. In order to diversify its operations recently the group has entered into an assured offtake agreement (500 tons per month, which will gradually increase to 1000 tons per month) with USA based Star Pipes Inc. for five years starting from FY21 for supply of Water woks components.

- **Locational advantage**

  Steel and power are the major raw material of the group. Located in the state of Chhattisgarh the group in enjoying easy access to steel as the state is one of the major steel hub in India. Besides, Chhattisgarh is a power surplus state and power is available at a cheap rate. Hence, the group is enjoying competitive edge being located in Chhattisgarh.

- **Improvement in scale of operation in FY22**

  The total operating income (TOI) of the Shivalik group has witnessed steady y-o-y growth of ~87% in FY22 to ~Rs.431 crore driven by increase in demand from tractor and commercial vehicle segment aided by improvement in macro-economic situation leading to revival in automobile sector post lock down period leading to higher volume sales coupled with improvement in its sales realisation. Backed by rise in TOI, the absolute EBITDA has also improved from Rs.23.86 crore in FY21 to Rs.29.11 crore in FY22. The PAT margin of the group though continued to remain thin improved from 0.65% in FY21 to 0.95% in FY22 backed by rise in absolute EBITDA. Aided by improvement in PAT margin, gross cash accruals (GCA) of the company have also improved from Rs11.18 crore on FY21 to Rs14.08 crore in FY22 (prov.).

- **Comfortable financial risk profile marked by satisfactory capital structure and healthy debt protection metrics**

  The financial risk profile of the group continues to remain comfortable marked by its comfortable gearing and healthy debt protection metrics. Further, the total indebtedness of the group also remained comfortable with a TOL/TNW at 1.69x as on March 31,2022 (Prov.). The debt protection metrics of the group also remained comfortable in FY22 marked by satisfactory interest coverage ratio at 2.09x in FY22 (Prov.), Total debt to EBITDA at 3.23x and Total debt to GCA at 6.67 years as on March 31,2022 (Prov.).

<u>Key Rating Weaknesses</u>

- **Exposure to volatility in raw material prices**

The major raw material required for the Shivalik group is steel and steel related items, prices of which are volatile in nature. The company procures these raw materials at prevailing market prices However, though its contracts with OEM'S has price revision clause to protect its margins to an extent, the overall profitability largely remains susceptible to fluctuations in its raw material prices.

- **Client concentration risk**

The group is vulnerable to client concentration risk as the top five customers of the group account for ~94% of the sales indicating a concentrated client base. However, group is in the process of diversifying and increasing its customer base into various sectors including commercial vehicles, railways and metro, tractors, water works and transmission lines. On the other hand, the company derived a major portion (~85%-90%) of its revenue from tractor industry which also indicated sectorial concentration risk.

- **High competition and cyclicality in the tractor/commercial vehicle equipment segment**

The automobile industry is cyclical in nature and automotive component suppliers' sales and tractors' segment sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment primarily caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers. However, established position of the group and strong relationship with the OEMS given a competitive advantage.

- **Exposure to group concern**

Both SPSPL and SEIL has extended corporate guarantee to their group concern Shivalik Auto Engineering Pvt Ltd (SAEPL) for its bank facilities. Exposure to group concern enhances the credit risk to an extent. However, SAEPL is a profit making company and is engaged in manufacturing of Ductile Iron & C.I castings for Automobiles, Tractors, Railways & related sectors and started its operation from October,2020.

- **Working capital intensive nature of operations**

Being in auto ancillary industry, the operations of the group are working capital intensive mainly due to its moderate receivables and inventory. The Shivalik group extends credit of around 30-60 days to its customers and maintained average finished goods inventory of around 60 days, while credit received has been around 30 days. Reliance on working capital borrowings has, therefore, been high with ~90% working capital limit utilisation in the past 12 months ended July,2022.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has combined the financial risk profiles of Shivalik Power & Steel Private Limited and Shivalik Engineering Industries Limited together referred to as the Shivalik group as these entities are running under a common management, have strong operational and financial linkages with cash flow fungibility. Shivalik Engineering

Industries Pvt. Ltd and Shivalik Power & Steel Private Limited provides corporate guarantee to each other. The list of companies is given in **Annexure 3.**

Applicable Criteria:

Criteria of assigning Rating Outlook
Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the Shivalik group is expected to remain adequate in the near term on the back of its healthy cash generation ability. The group has generated a cash accrual of ~Rs.14 crore in FY22 (prov.) and expected to generate cash accruals in the range of ~Rs.16-18 crore during FY23-25 driven by its healthy order book as against its debt repayment of ~Rs.9 to 14 crore during the aforesaid period. Further, the group has adequate gearing headroom backed by its comfortable leverage ratios. However, the liquidity position of the group is restricted due to its working capital-intensive nature of operations and high dependence on working capital borrowings.

About the company (SEIL)

Shivalik Engineering Industries Pvt. Ltd (SEIPL) was incorporated in 2011 by Mr. Giriraj Singhania and Mr. Vishal Sharma based out of Chhattisgarh. In April 2015, the company commenced production and started manufacturing iron casting components for automobiles, railways and engineering industry at its foundry unit with an installed capacity of 30,000 MTPA located in Hathkhoj, Industrial Estate, Bhilai, Chhattisgarh. The day to day affairs of the company are looked after by Mr. Giriraj Singhania (Managing Director, over 18 years of experience in foundry field) with adequate support from Mr. Vishal Sharma (Director) and a team of experienced professionals.

About the Group

The Shivalik group is founded by the Mr. Giriraj Singhania and Mr. Vishal Sharma based out of Raipur, Chhattisgarh. The group has vast experience in the manufacturing of auto component products through various companies under its fold. The group started their business operations in 2004 and gradually ventured into manufacturing operations of ductile iron and graded cast iron products in 2007. Currently the group is engaged in manufacturing of different grades of Ductile Iron and Graded Cast Iron Engineering components. Both SPSPL and SEIPL are engaged in the same line of business where as heavy components (25kg to 100kg) are manufactured under SEIPL and lighter components (1/2 kg to 50 kg) are manufactured under SPSPL. Further, both these companies are under the same management with strong operational and financial linkages.

Financials: Combined **(Rs. crore)**

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	230.83	430.76
EBITDA	23.86	29.11
PAT	1.51	4.09
Total Debt	100.33	93.98
Tangible Net worth	95.93	107.31
Tangible Net worth including quasi equity	101.65	108.24
EBITDA Margin (%)	10.34	6.76
PAT Margin (%)	0.65	0.95
Overall Gearing Ratio (x)	1.05	0.88

**Classification as per Infomerics' standards.*

Financials: Standalone (SEIL) **(Rs. crore)**

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	188.75	314.91
EBITDA	17.11	21.01
PAT	0.96	3.04
Total Debt	75.82	69.81
Tangible Net worth	51.98	62.31
Tangible Net worth including quasi equity	57.65	63.19
EBITDA Margin (%)	9.07	6.67
PAT Margin (%)	0.51	0.97
Overall Gearing Ratio (x)	1.46	1.12

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: CRISIL has maintained the rating into Issuer Not Cooperating category as per PR (on a combined basis of SPSPL and SEIL) dated October 19, 2021 due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1	Term Loan	Long Term	34.10	IVR BBB-; Positive	IVR BBB-; Stable (June 28, 2021)	IVR BBB-; Stable (July 24, 2020)	-
2	Cash Credit	Long-term	25.90	IVR BBB-; Positive	IVR BBB-; Stable (June 28, 2021)	IVR BBB-; Stable (July 24, 2020)	-

Name and Contact Details of the Rating Analyst:

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Term Loan	-	-	Dec 2027	34.10	IVR BBB-; Positive
Long Term Fund Based Limits –Cash Credit	-	-	-	25.90	IVR BBB-; Positive

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Shivalik-Engineering-aug22.pdf

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Annexure 3: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Shivalik Power & Steel Private Limited	Full consolidation
Shivalik Engineering Industries Limited	Full consolidation

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.