Press Release

Shivalik Engineering Industries Limited

June 28, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	60.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
	Total	**60.00 (Rs. Sixty crore only)**		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of Shivalik Engineering Industries Limited (SEIL) considers 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 rating takes into account the combined entity's experienced promoters, reputed clientele, locational advantage and healthy order book position indicating a near to medium term revenue visibility. Further the rating also consider improvement in financial performance in FY21 with 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.

Key Rating Sensitivities:

Upward Factor:

- Substantial & sustained improvement in revenue and/or profitability leading to improvement in debt protection metrics
- Sustenance of the capital structure
- Improvement in liquidity and improvement in average working capital limit utilisation to below 85% on a sustained basis and improvement in operating cycle

Downward Factors:

- Substantial decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Deterioration in the capital structure with overall gearing remain more than 1.5x
- Deterioration in liquidity with increase in operating cycle

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. 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 leading original Equipment's Manufacturers (OEM's) which are 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. Strong association with these OEM's, 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 an USA based company 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 financial performance in FY21**

  The group's topline remained erratic over the past two fiscals and after witnessing a decline in FY20 due to weak market conditions improved in FY21 (prov.) by ~12% over FY20 despite lockdown during Q1FY21. The improvement was mainly driven by high demand from tractor segment with improvement in macro-economic situation leading to revival in automobile sector post lock down period during FY21.Improvement in topline and higher capacity utilisation leading to higher absorption of fixed overheads resulted in improvement in absolute EBITDA and operating margin of the company. With improvement in operating profit, PAT and PAT margin has also improved in FY21 (Prov.). Guided by improvement in profitability gross cash accruals of the company has also improved from Rs11.36 crore on FY20 to Rs14.04 crore in FY21.

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

  The financial risk profile of the group remained comfortable over the years 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 1.65x as on March 31,2021The debt protection metrics of the group also remained comfortable and heathy supported by its strong cash accruals marked by its strong interest coverage ratio over the years.

- **Healthy order book position indicating a near to medium term revenue visibility**

  The group has an order book position of Rs.559 crore as on April 30,2021 and is executable within the next 12 months period which indicates a strong revenue visibility in the near to medium term.

Key Rating Weaknesses

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

The major raw material required for the 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 some of 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 commercial vehicle 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 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 ~85% working capital limit utilisation in the past 12 months ended May,2021.

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 has also provided corporate guarantee to Shivalik Power & Steel Private Limited. The lists of Companies considered for combined are given in **Annexure 3.**

Applicable Criteria:

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 FY21 (prov.) and expected to generate cash accruals in the range of ~Rs.21-29 crore during FY22-24 driven by its healthy order book as against its debt repayment of ~Rs.14 crore during the aforesaid period. 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 leaving a limited liquidity buffer from its working capital limits.

About the company

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	31-03-2020	31-03-2021
	Combined	Combined^
Total Operating Income	198.35	223.56
EBITDA	22.86	27.50
PAT	2.32	4.64
Total Debt	86.28	96.53
Tangible Net worth including quasi equity	94.42	99.06
EBITDA Margin (%)	11.53	12.30
PAT Margin (%)	1.17	2.08
Overall Gearing Ratio (x)	0.91	0.97

**Classification as per Infomerics' standards. ^Provisional*

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

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	153.49	182.20
EBITDA	16.53	20.04
PAT	1.95	3.42
Total Debt	68.41	77.23
Tangible Net worth	51.02	54.44
EBITDA Margin (%)	10.77	11.00
PAT Margin (%)	1.26	1.88
Overall Gearing Ratio (x)	1.34	1.42

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Issuer Not Cooperating from CRISIL as per PR dated July 20, 2020 on a combined basis of SPSPL and SEIL due to non-submission of information by the company

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	34.10	IVR BBB-; Stable Outlook	IVR BBB-; Stable (July 24, 2020)	-	-
2.	Cash Credit	Long-term	25.90	IVR BBB-; Stable Outlook	IVR BBB-; Stable (July 24, 2020)	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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-; Stable Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	25.90	IVR BBB-; Stable Outlook

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/lender-shivalik-engn-28-6-21.pdf

Annexure 3

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