



Press Release

Sagar Asia Private Limited

September 10, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Bank Facilities – Term Loan	5.25 *	IVR BBB - /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term Fund Based Bank Facilities – Cash Credit	50.00 (including proposed limit of Rs.30.00 crore)	IVR BBB - /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Non-Fund Based Bank Facilities – Letter of Credit	10.00 (including proposed limit of Rs.3.00 crore)	IVR A3 (IVR A Three)	Assigned
Short Term Non-Fund Based Bank Facilities – Bank Guarantee	5.00 (Proposed limit)	IVR A3 (IVR A Three)	Assigned
Total	70.25		

*outstanding as on August 31, 2020

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Sagar Asia Private Limited (SAPL) derives comfort from its experienced promoters with long track record of operations, wide market presence with diversified clientele. The ratings also consider stable financial performance albeit moderation in top line in FY20 (Prov.) with improvement in capital structure and debt protection parameters. However, these rating strengths are partially offset by susceptibility of profitability to volatility in raw material prices, exposure to intense competition and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward factors

- Sustained and significant improvement in scale of operations, profitability and cash accruals
- Improvement in the capital structure with overall gearing improved to below 0.75x
- Improvement in the operating cycle with improvement in liquidity

Downward factors



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- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.
- Withdrawal of subordinated unsecured loan and/or deterioration in overall gearing to over 1.50 times.
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record

SAPL was incorporated in 2007 and is engaged in the manufacturing of aluminium ladder, scaffoldings, wind ladder, and aluminium extrusion. With over a decade of operational track record, SAPL enjoys established market presence across the country and capability to produce diverse product offerings which finds application in varied end user industries.

The operations of the company are looked after by the promoter Mr. Veeramsetty Vidyasagar who is also the Chairman and Managing Director of the company and is a post graduate in commerce by qualification with over 40 years of experience in the related line of activity. He is actively involved in managing the day to day operations of the company along with the support of qualified and experienced professionals.

Wide market presence

SAPL has a Pan India presence as its products are sold across the country. Further, the company derives significant portion of its revenues from exports to different countries (Export sales accounted for 8.29% of the total revenue in FY20 [Prov.]). This insulates the company from any regional economic downturns to an extent.

Diversified clientele

SAPL has four business verticals: aluminium extrusion, ladder, scaffolds and wind ladder. The company has a diversified client base with sales to various industries in India and overseas. The top ten customers accounted for only ~54% of the total sales in FY20 indicating a diversified and granular customer profile.

Stable financial performance albeit moderation in top line in FY20 (Prov.)



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The total operating income of the company witnessed a y-o-y decline from Rs. 112.44 crore in FY19 to Rs.90.55 crore in FY20 (Prov.) due to decline in volume sales of almost all the products of the company as well as decline in sales realisation of ladders which is one of the key products of the company in FY20 as compared to FY19. The decline in sales was on account of the fact that during FY18-FY20, the company had gone for substantial capex and implemented new facilities including robotic welding machine which ensured less dependence on labour force and increasing productivity, anodising facility which was earlier being outsourced by the company and plastic injection moulding facility to manufacture desired quality of plastic components required in ladder division. Hence, the revenue was lower during Q1FY20, since the company was focussing more on stabilising its product and enhanced manufacturing facilities. Further, the sales were also hit during the last quarter of FY20, due to the outbreak of COVID.

In spite of decline in total operating income in FY20, absolute EBITDA improved from Rs.13.16 crore in FY19 to Rs.13.87 crore in FY20 (Prov.) resulting in improvement in EBITDA margin from 11.70% in FY19 to 15.31% in FY20 (Prov.). The improvement in margins despite declining turnover was due to the newly installed automated technology which led to savings in operational cost with increased productivity and better-quality value-added products. Accordingly, PAT margin also improved from 1.19% in FY19 to 2.48% in FY20 (Prov.). GCA improved from Rs.8.08 crore in FY19 to Rs.8.97 crore in FY20 (Prov.). Infomerics expects further improvement in margins going forward driven by benefits of automation. During Q1FY21, the company reported a revenue of Rs.19.04 crore.

Improvement in capital structure and debt protection metrics in FY20 (Prov.)

The capital structure of the company improved and remained comfortable with long term debt equity ratio of 0.54x (1.80x as on March 31, 2019) and overall gearing of 1.11x (2.97x as on March 31, 2019) (treating the subordinated unsecured loans to the extent of Rs.4.48 crore from Directors and relatives as quasi equity). Further, total indebtedness of the company remained comfortable with TOL/ANW at 1.60x as on March 31, 2020 (Prov.). The improvement in capital structure was majorly on account of infusion of equity (in the form of share application money) by the promoters coupled with repayment of unsecured loans in FY20 (Prov.). The debt protection metrics also remained comfortable with interest coverage ratio of 2.64x in FY20 (Prov.) (2.53x in FY19) and Total debt to GCA at 4.34x in FY20 (Prov.) (6.93x in FY19).



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Key Rating Weaknesses

Susceptibility of profitability to volatility in raw material price

Aluminium ingots and billets are the key raw material for SAPL. SAPL procured aluminium ingots and billets from large domestic suppliers like Vedanta Aluminium Limited and Hindalco Industries Limited which indicates lower bargaining power of the company as against its key suppliers. Further, the aluminium industry is cyclical in nature with prices for the commodity driven by changing demand and supply conditions in the market which also has strong linkages to the global market. This results in risk of price fluctuation on the inventory of raw materials as well as finished goods. However, this risk is mitigated to an extent since any fluctuations in the raw material prices is passed on to the consumers.

Intense competition

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, SAPL also faces competition from the organized sector players.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. The overall working capital intensity of SAPL's business is governed to a large extent by its raw material inventory which in turn is governed by its order execution cycle. Further, SAPL has to extend credit period of 60-90 days to its customers on account of intense competition in the industry. Also, the manufacturing process are interlinked and interdependent in such a way that a finished good of one process acts as a raw material for another process. Hence, the company has to maintain around two to three months of inventory in hand as a regular business practice. However, the same is negated to some extent since it enjoys 45-60 days credit period from its suppliers. The operating cycle increased from 99 days in FY19 to 130 days in FY20 (Prov.), primarily because of increase in inventory days from 79 days in FY19 to 111 days in FY20 (Prov.) which was primarily due to the outbreak of COVID during the last quarter of FY20 which caused an impact in sales of the company. Thus, the finished goods remained in stock during the last quarter of FY20 leading to increase in inventory days in FY20 (Prov.). Further, the average working capital utilisation also remained high at 93% during the last twelve months ended July, 2020.

Analytical Approach: Standalone



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity of the company appears to be adequate marked by sufficient cash accruals vis-à-vis its debt repayment obligations in the near to medium term. Further, with comfortable overall gearing of 1.11x as on March 31, 2020 (Prov.) the company has adequate gearing headroom. Moreover, the company had a comfortable cash and bank balance of Rs. 1.85 crore as on July 31, 2020. However, the average working capital utilisation remained high at ~93% during the past twelve months ended July, 2020 indicating a limited liquidity buffer. The average non-fund-based utilisation was comfortable at 62% during the past twelve months ended July, 2020. Further, the promoters have also continuously supported the operations of the company by infusing funds in the form of unsecured loans. The promoters have further infused Rs. 14.00 crore in FY20 in the form of share application money which will be converted to equity in FY21 to meet the working capital requirements.

About the Company

Incorporated in 2007 by Hyderabad based Mr. Veeramsetty Vidyasagar, Sagar Asia Private Limited (SAPL; Erstwhile Zarges Tubesca India Private Limited) is engaged in manufacturing of aluminium ladder, scaffoldings, wind ladder and aluminium extrusion with annual installed capacity of 10,000 MTPA for aluminium extrusions, 1,00,000 units per month for aluminium and fiberglass ladders, 24,00 MTPA for scaffolds, 1,000 tower sets per month for wind ladders, 100 units per month for service lifts and 12,00 MTPA for solutions and specialities. The company has 4 manufacturing units located in Hyderabad and its products are ISO 9001, 14001, 18001 certified.

Financials (Standalone):

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	112.44	90.55
Total Income	112.57	90.90
EBITDA	13.16	13.87
PAT	1.34	2.26
Total Debt	56.05	38.94
Adjusted Net worth	18.84	35.10



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For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
EBITDA Margin (%)	11.70	15.31
PAT Margin (%)	1.19	2.48
Overall Gearing Ratio (x)	2.97	1.11

*As per Infomerics' Standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	5.25 *	IVR BBB-/ Stable Outlook	-	-	-
2.	Cash Credit	Long Term	50.00 (including proposed limit of Rs.30.00 crore)	IVR BBB-/ Stable Outlook	-	-	-
3.	Letter of Credit	Short Term	10.00 (including proposed limit of Rs.3.00 crore)	IVR A3 (IVR A Three)	-	-	-
4.	Bank Guarantee	Short Term	5.00 (proposed limit)	IVR A3 (IVR A Three)	-	-	-

*outstanding as on August 31, 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.

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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 Bank Facilities – Term Loan	-	-	February, 2023	5.25 *	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	50.00 (including proposed limit of Rs.30.00 crore)	IVR BBB- / Stable Outlook
Short Term Bank Facilities – Letter of Credit	-	-	-	10.00 (including proposed limit of Rs.3.00 crore)	IVR A3
Short Term Bank Facilities – Bank Guarantee	-	-	-	5.00 (proposed limit)	IVR A3

*outstanding as on August 31, 2020



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