

Rating Update

August 25, 2021 | Mumbai

Samrat Forgings Limited

Update as on August 25, 2021

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

Upside scenario

- Growth in revenue, leading to operating profit and cash accrual of over Rs 40 million
- Improvement in working capital management with gross current assets (GCAs) less than 150 days, amidst a stable capital structure

Downside scenario

- Decline in revenue by 20% and fall in operating profitability to less than 200 basis points
- Increase in working capital requirement, weakening the financial risk profile, especially liquidity

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Samrat Forgings Limited (SFL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About The Company

Incorporated in 1981, SFL undertakes closed-die forging/machining for components, such as spindles, crank shafts, connecting rods, bull gears, and crown wheels for clients in various industries. Mr Rakesh Mohan Kumar is the managing director.

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Rating Rationale

July 28, 2020 | Mumbai

Samrat Forgings Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.30 Crore
Long Term Rating	CRISIL BB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BB-/Stable/CRISIL A4+' ratings on the bank facilities of Samrat Forgings Ltd (SFL).

The ratings reflect the extensive experience of the promoters in the steel industry, SFL's moderate scale of operations with estimated revenue of Rs 82 crore in fiscal 2020. Revenue is expected to remain stable despite the Covid-19 pandemic because of healthy demand from the agriculture segment. These strengths are partially offset by the below-average financial risk profile and working capital intensive operations.

Analytical Approach

Unsecured loans of Rs.2.28 crore as on March 31, 2020, from the promoter have been treated as neither debt nor equity, as the loans are likely to remain in the business over the medium term.

Key Rating Drivers & Detailed Description

Strengths:

* Extensive experience of the promoter:

The promoter's experience of more than three decades, healthy customer relationships, diversified product offerings and a strong procurement network should continue to support the business.

* Moderate scale of operations:

Scale of operations is moderate, with a revenue of Rs 82 crore in fiscal 2020. Revenue is expected to improve due to healthy demand from the agriculture equipment segment and fast revival of the industry over the medium term.

SFL has reported a compound annual growth rate of more than 8% in the three fiscals ended 2020.

Weaknesses:

* Below-average financial risk profile:

Significant reliance on external debt should keep financial risk profile weak. Networth was estimated at Rs 17.5 crore as on March 31, 2020, while gearing was high at 1.80 times. Debt protection metrics are average with interest coverage and net cash accrual to adjusted debt ratios of 1.70 times and 0.11 time, respectively, in fiscal 2020.

* Working capital-intensive operations:

Gross current assets (GCAs) are estimated at more than 200 days as on March 31, 2020, driven by large inventory of more than 150 days and receivables of 48 days. However, payables estimated around 130 days support working capital.

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Liquidity Adequate

Cash accrual, expected at more than Rs 3.0-3.5 crore annually over the medium term should cover yearly term debt obligation of Rs 2.5 crore and support liquidity. Bank limit was utilised 95% in the 12 months through June 2020. Current ratio was low at 1.05 times as on March 31, 2020.

Outlook: Stable

CRISIL believes SFL will continue to benefit from its diversified clientele, comprising leading original equipment manufacturers in the automotive, gears, tractor, construction equipment, and other industries.

Rating Sensitivity factors

Upward factors

- * Growth in revenue, leading to operating profit and cash accrual of over Rs 4 crore.
- * Improvement in working capital management with GCAs less than 150 days, amidst a stable capital structure.

Downward factors

- * Decline in revenue (by 20%) and operating profitability (to less than 200 basis points).
- * Increase in working capital requirements weakening the financial risk profile, especially liquidity.

About the Company

Incorporated in 1981, SFL undertakes closed-die forging/machining for components, such as spindles, crank shafts, connecting rods, bull gears, and crown wheels for clients in various industries. Mr Rakesh Mohan Kumar is the managing director.

Key Financial Indicators

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	96.18	80.29
Reported profit after tax	Rs crore	1.01	1.29
PAT margin	%	1.05	1.61
Adjusted debt/Adjusted networth	Times	2.04	2.06
Interest coverage	Times	1.70	1.98

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	18.5	NA	CRISIL BB/Stable
NA	Bank Guarantee	NA	NA	NA	1.50	NA	CRISIL A4+

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NA	Letter of Credit	NA	NA	NA	4.00	NA	CRISIL A4+
NA	Bill Discounting	NA	NA	NA	1.00	NA	CRISIL BB/Stable
NA	Term Loan	NA	NA	Aug-2023	0.36	NA	CRISIL BB/Stable
NA	Proposed Term Loan	NA	NA	NA	1.64	NA	CRISIL BB/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	3.00	NA	CRISIL BB/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	24.50	CRISIL BB-/Stable			02-04-19	CRISIL BB-/Stable	20-03-18	CRISIL B+/Stable			CRISIL B+/Stable
						11-03-19	CRISIL BB-/Stable					
Non Fund-based Bank Facilities	LT/ST	5.50	CRISIL A4+			02-04-19	CRISIL A4+	20-03-18	CRISIL A4			CRISIL A4
						11-03-19	CRISIL A4+					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1.5	CRISIL A4+	Bank Guarantee	1.5	CRISIL A4+
Bill Discounting	1	CRISIL BB/Stable	Bill Discounting	1	CRISIL BB/Stable
Cash Credit	18.5	CRISIL BB/Stable	Cash Credit	18.5	CRISIL BB/Stable
Letter of Credit	4	CRISIL A4+	Letter of Credit	4	CRISIL A4+
Proposed Term Loan	1.64	CRISIL BB/Stable	Proposed Term Loan	1.64	CRISIL BB/Stable
Proposed Working Capital Facility	3	CRISIL BB/Stable	Proposed Working Capital Facility	3	CRISIL BB/Stable
Term Loan	.36	CRISIL BB/Stable	Term Loan	.36	CRISIL BB/Stable

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Total	30	--	Total	30	--
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Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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[CRISILs Criteria for rating short term debt](#)

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