

Rating Rationale

Deep Alloys

October 12, 2017

Brickwork Ratings revises ratings for the Bank Loan Facilities of Rs. 10.82 Crs of Deep Alloys.

Particulars

| Facility Rated | Previous Limits (Rs. Crs) | Present Limits (Rs. Crs) | Tenure | Previous Rating (Nov 2015) | Present Rating * |
|--|----------------------------------|---|-------------------|--|--|
| Fund Based Cash Credit Term Loans | 10.50 2.00 8.50 | 8.82 2.00 6.82 | Long Term | BWR B+ Pronounced as BWR B Plus Outlook: Stable | BWR BB- Pronounced as BWR Double B Minus Outlook: Stable upgraded |
| Non-Fund Based | 2.00 | 2.00 | Short Term | BWR A4 Pronounced as BWR A Four | BWR A4 Pronounced as BWR A Four reaffirmed |
| Total | 12.50 | Rs. 10.82 Crores (Rupees Ten Crores Eighty Two Lakhs only) | | | |

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial results up to FY16, provisional financials of FY17, projected financial statements up to FY19, publicly available information and information provided by the management.

The rating revision takes into account experienced promoters with ability to infuse capital as per business requirements, support from the group Company, locational advantage, y-o-y growth in term of sales volumes and improved profit margins. The rating is, however, constrained by the modest scale of operation, working capital intensive nature of business, moderate gearing with stressed debt coverage position, inherent risk of sluggish steel industry and intense competition from other players in the industry.



Key Rating Drivers:

1. Experienced management: The partners, Mr. Upendra Patel and Mr. Vasant Patel have over 10 years of experience in the steel business. Deep Alloys is also supported by group company Mark Alloys Pvt Ltd. Partners are able to infuse funds as per business requirements. Around 98% of the product developed by company goes to Mark Alloys the associate company of the firm.
2. Improved Performance: Overall improvement in financial performance marked by growth in sales volumes, improved net profit margin and improvement in gearing along with debt coverage indicators. Although there is 28% increase in sales volumes, the revenues have remained stagnant due to lower market price. The firm has recorded 28% improvement in sales volumes in FY17. Operating profit improved from Rs. 1.47 Crs in FY16 to Rs. 2.22 Crs in FY17 mainly on account of lower raw material and power cost. Overall gearing and debt coverage indicators continued to remain moderate as on March 31, 2017.
3. Exposure to inherent cyclicity in the steel industry: The company is exposed to fluctuations in the prices of raw materials. As a result, the profitability margins are susceptible to input price fluctuation.
4. Low profit margin: Operating profit margin has increased from 5.46% in FY16 to 8.60% in FY17. Though the profit margins have improved, the same continue to be low owing to the industry it operates in.

Analytical Approach (Wherever applicable):

Ratings have been based on the undernoted hyperlinked rating criteria.

Rating Outlook: Stable

BWR believes the Deep Alloys' business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Deep Alloys (DA), situated in Sabarkantha, Gujarat, was established in January, 2013, as a partnership Firm by its two partners, Mr. Upendra kumar Kantibhai Patel and Mr. Vasant kumar Vitthalbhai Patel, having equal partnership sharing ratio. The Firm is established with the objective of manufacturing MS billets from MS Scrap using an induction furnace. Installed capacity of the plant is 15,000 MTPA of billets And the commercial operations having started on 20th May, 2014. The Firm has a tie – up with Mark Alloys Private Limited (MAPL), to purchase



95% of the Firm's production of billets, which are used as raw material for manufacturing MS pipes.

Company Financial Performance

The company reported a net profit of Rs. 0.98 Crs on an operating income of Rs. 25.85 Crs in FY17 (P), as compared to a net profit of Rs. 0.19 Crs on an operating income of Rs. 26.85 Crs in the previous year.

| Key Financial Figures | | | |
|-----------------------|------------|----------|---------|
| Particulars | Unit | FY16 (A) | FY17(P) |
| Operating Income | Rs. Crores | 26.85 | 25.85 |
| EBITDA | Rs. Crores | 1.47 | 2.22 |
| PAT | Rs. Crores | 0.19 | 0.98 |
| Tangible Networth | Rs. Crores | 2.86 | 4.21 |
| Total Debt | Rs. Crores | 13.01 | 10.29 |
| Total Debt : Equity | Times | 4.55 | 2.44 |

Rating History for the last three years:

| Sl. No. | Instrument/Facility | Current Rating (Year 2017) | | | Rating History | | |
|---------|-----------------------|---|-----------------|--------------------------|----------------|----------|--------|
| | | Type | Amount (Rs Crs) | Rating | 31.03.17 | 25.11.15 | 2014 |
| | Fund Based | Long Term | 8.82 | BWRBB-upgraded | RNR | BWR B+ | BWR B |
| | Non-Fund Based | Short Term | 2.00 | BWR A4 reaffirmed | | BWR A4 | BWR A4 |
| | Total | Rs. 10.82 Crores (Rupees Ten Crores Eighty Two Lakhs only) | | | | | |

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not applicable



Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Short Term Debt](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

| Analytical Contacts | Media |
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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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