

Press Release

Sri Sai Industries

6 October, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr
Long Term Rating	SMERA B+/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 10.00 crore bank facilities of Sri Sai Industries (SSI). The outlook is '**Stable**'.

Sri Sai Industries (SSI), established in 1998 is a Karnataka-based proprietorship concern promoted by Mr. R.V.S Reddy. The firm is engaged in the manufacturing of precision sheet metal enclosures used in CNC machines and electrical component enclosures. The firm also manufactures steel fabricated coffee vending machines and base frame for transformers. The manufacturing plant is located at Bangalore. The firm caters to automobile, railways, telecommunications and engineering industries.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations, experienced management: The firm has long track record of operations of nearly two decades in the metal industry. The promoter, Mr. R. V. S. Reddy has experience of around two decades in the aforementioned industries.

Reputed clientele: The firm caters to a reputed client base including Ace Manufacturing Systems Private Limited, Coffee Day Global Limited and Sudhir Transformers Limited.

The firm registered healthy EBITDA margin of 20.08 percent for FY2017 (Provisional) as against 16.97 percent in the previous year.

Weaknesses:

Small scale of operations: The scale of operations is small with operating income of Rs.18.14 crore for FY2016-17 compared to Rs.16.18 crore in the previous year. Further, as informed by the management, SSI reported Rs.9.58 crore for the period April, 2017 to August, 2017.

Average financial risk profile: The financial risk profile is average marked by stretched gearing of 2.63 times (Provisional) as on 31 March, 2017 as against 1.63 times in the previous year. The total debt stood at Rs. 14.72 crore which includes short term borrowings of Rs. 4.00 crore. The interest coverage ratio stood at 2.14 times (Provisional) for FY2017 as against 1.47 times in FY2016. The debt service coverage ratio (DSCR) stood at 1.42 times (Provisional) for FY2017 as against 1.47 times in the previous year. The tangible networth stood at Rs. 5.60 crore (Provisional) as on 31 March, 2017 compared to Rs. 6.18 crore in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.13 times (Provisional) in FY2017 as against 0.09 times in FY2016.

Stretched liquidity position: The liquidity position of the firm is stretched as the cash credit limit has been fully utilised during the last six months ended 31 August, 2017. The operations are working capital intensive evident from the high gross current assets at 116 for FY2017 as against 97 days in FY2016. This is on account of high debtor days of 68 in FY2017 and 71 days in FY2016.

Proprietorship constitution: The firm is vulnerable to capital withdrawal risk due to its proprietorship constitution. The networth stood at Rs. 5.60 crore as on 31 March, 2017 as against Rs. 6.18 crore as on 31 March, 2016.

Highly competitive and fragmented industry: The firm is exposed to intense competition from other organised and unorganised players.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the firm.

Applicable Criteria

Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Default Recognition - <https://www.smera.in/criteria-default.htm>

Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that SSI will maintain a stable outlook over the medium term on account of its established operational track record. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenues while sustaining profitability and improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its financial risk profile and liquidity position due to higher than expected working capital requirements or major debt funded capital expenditure undertaken.

About the Rated Entity –Key Financials

For FY2016-17 (Provisional), SSI reported profit after Tax (PAT) of Rs. 0.57 crore on operating income of Rs. 18.14 crore as against PAT of Rs. 0.14 crore on operating income of Rs. 16.18 in the previous year. The net worth stood at Rs. 5.60 crore (Provisional) as on 31 March, 2017 as against Rs.6.18 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable):

CRISIL, vide release dated April 28, 2017 has suspended the ratings of SSI on account of lack of adequate information required for monitoring of ratings.

ICRA has been trying to seek information from the entity to monitor its performance. Despite repeated requests by ICRA, the entity's management has remained non-cooperative. In the absence of requisite information, and in line with SEBI's Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 1, 2016, ICRA's Rating Committee has taken a rating view based on the best available information.

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	3.00^	SMERA B+/Stable (Assigned)
Term Loan	N.A	N.A	March, 2023	4.92	SMERA B+/Stable (Assigned)
Proposed Fund based	N.A	N.A	N.A.	2.08	SMERA B+/Stable (Assigned)

^ Fully interchangeable with packing credit.

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

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