

Sapphire Digital Printers: Assigned

Name of the Instruments	Amount (Rs. Crore)	Ratings /Outlook
Cash Credit	29.00	SMERA BB/Stable (Assigned)
Term Loan	19.23	SMERA BB/Stable (Assigned)
ILG/FLG	0.04	SMERA A4+(Assigned)

SMERA has assigned rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.48.23 crore long term (fund based) and '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.0.04 crore short term (non-fund based) bank facilities of Sapphire Digital Printers (SDP). The outlook is '**Stable**'. The ratings derive comfort from the experienced management, moderate financial risk profile and healthy relations with customers and suppliers. The ratings also draw support from the profitability profile and healthy growth in operating income. However, the aforementioned strengths are partially offset by the capital intensive business, full utilisation of bank limits and intense competition in the printing industry.

SDP, engaged in the publishing of books, brochures, posters among others, benefits from its experienced management. Mr. Neeraj Chaudhary, Proprietor, has 15 years experience in the printing industry. The firm's moderate financial risk profile is marked by leverage (debt-equity ratio) of 1.80 times in FY2014-15 against 1.91 times in FY2013-14. The interest coverage ratio was modest at 2.47 times in FY2014-15 against 2.27 times in FY2013-14 (refers to financial year, April 01 to March 31) and net cash accruals to total debt (NCA/TD) stood at 0.15 times in FY2014-15 against 0.16 times during the previous year.

The operating income has grown at a compounded annual growth rate (CAGR) of 63 per cent to Rs.101.59 crore over the last four years ended FY2014-15 on the back of healthy relations with customers and suppliers. SDP has reported operating income of Rs.131.49 crore (provisional) for 11 months ended February 2016. The moderate profitability profile is marked by operating margins and profit after tax (PAT) margins of 9.41 per cent and 2.99 per cent respectively in FY2014-15 against 10.76 per cent and 2.72 per cent, respectively during the previous year.

However, SDP faces intense competition from several players in the printing industry. The operations are working capital intensive evident from the gross current assets (GCA) of 144 days in FY2014-15 against 143 days during the previous year. SMERA believes that this is expected to remain so over the medium term due to the limited bargaining power of the firm with renowned clients such as Siemens, Maruti Suzuki Limited, Hyundai Motors India among others. Further, the rating also takes into account the two month inventory that the firm maintains in order to offer a diversified product range to its customers.

Outlook: Stable

SMERA believes SDP will maintain a stable business risk profile in the medium term owing to the established operations and extensive experience of the promoter in the business. The outlook may be revised to 'Positive' in case of improvement in working capital management, higher than expected cash accruals, improvement in capital structure or sustainable and substantial growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' if the firm registers decline in profitability, revenue or cash accruals or deterioration in the capital structure due to large debt funded capital expansion.

Rating Sensitivity Factors

- Debt funded capital expansion
- Efficient working capital cycle
- Sustainable growth in revenue and profitability profile

Criteria applied to arrive at the rating(s):

- Manufacturing Entities

About the Firm

The Haryana-based proprietorship firm, SDP was incorporated in 2003 by Mr. Neeraj Chaudhary. The firm is engaged in the publishing of books, brochures, posters among others at Gurgaon. It has interest bearing unsecured loans from promoters, friends and relatives worth Rs.9.87 crore in FY2014-15 that are subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity.

For FY2014-15, the firm reported profit after tax (PAT) of Rs.3.03 crore on operating income of Rs.101.59 crore, as compared with profit after tax (PAT) of Rs.2.23 crore on operating income of Rs.82.04 crore in FY2013-14. The net worth of the firm stood at Rs.20.69 crore as on March 31, 2015 against Rs.15.72 crore a year earlier.

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ABOUT SMERA

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