

Press Release

Sri Prasanna Metals and Alloys (SPMA)

28 January, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.9.26 Cr
Long Term Rating	SMERA B+/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.9.26 crore bank facilities of Sri Prasanna Metals and Alloys (SPMA). The outlook is '**Stable**'.

The ratings continue to derive comfort from the experienced management and moderate financial risk profile. These strengths are partially offset by the firm's moderate scale of operations, working capital intensive business and susceptibility of margins to fluctuations in raw material prices.

SPMA is a Chennai-based partnership firm engaged in the fabrication of structural steel components.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management: SPMA was established in 2004. The partners, Mr. R. Manivannan, Mr. Muruganandam and Mr. P.S. Veeramani possess more than a decades experience in the said line of business.

Moderate financial risk profile: The financial risk profile continues to be moderate with tangible net worth of Rs.6.65 crore and gearing (debt-to-equity ratio) of 1.16 times as on 31 March, 2016. The tangible net worth stood at Rs.5.71 crore and gearing was 1.00 times as on 31 March, 2015. The interest coverage ratio stood at 1.92 times and DSCR (Debt service coverage ratio) at 1.73 times in FY2015-16. The TOL/TNW deteriorated to 1.49 times as on 31 March, 2016.

Weaknesses:

Moderate scale of operations: The revenue continues to remain moderate with operating income of Rs.30.43 in FY2015-16 as against Rs.23.16 crore in FY2014-15. Further, the group achieved ~Rs.26.00 crore from April 2016 – October 2016. The firm has order of Rs.9.14 crore as on December, 2016.

Working capital intensive business: The operations are working capital intensive, as reflected in its gross current assets of around 162 days as on 31 March, 2016 as against 197 in the previous year. This was on account of increase in inventory days of 130 in FY2016. The average utilisation of cash credit stood at 100 per cent for six months ended December, 2016.

Susceptibility of profit margins to raw material prices: The operating margins declined to 6.34 percent in FY2016 compared to 7.60 percent in FY2015 due to increase in raw material prices.

Partnership constitution of the firm: The financial profile is susceptible to inherent risk of capital withdrawal owing to the partnership constitution of the firm.

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

Applicable Criteria

- Manufacturing Entities: <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that SPMA will continue to maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the firm reports higher than expected revenue growth and profitability while improving the capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the envisaged revenue growth and profitability or registers deterioration in the financial risk profile on account of higher than expected working capital requirement.

About the Rated Entity

SPMA, incorporated in 2004 was promoted by Partners, Mr. N Muruganandam, Mr. R Manivannan, and Mr. P S Veeramani. The firm is engaged in the fabrication of structural steel components used in cement factories and sugar mills. The manufacturing facility is located at Vellore, Tamil Nadu.

In FY2015-16, SPMA reported profit after tax (PAT) of Rs.0.53 crore on operating income of Rs.30.43 crore as against profit after tax (PAT) of Rs.0.46 crore on operating income of Rs.23.16 crore in the previous year. The net worth stood at Rs.6.65 crore as on 31 March, 2016 against Rs.5.71 crore a year earlier.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	7.50	SMERA B+/Stable (Reaffirmed)	-	-	14 Dec	SMERA B+/Stable (Assigned)	-	-
Term Loan	LT	0.26	SMERA B+/Stable (Reaffirmed)	-	-	14 Dec	SMERA B+/Stable (Assigned)	-	-
Bank Guarantee	ST	1.50	SMERA A4 (Reaffirmed)	-	-	14 Dec	SMERA A4 (Assigned)	-	-

***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	NA	NA	NA	7.50	SMERA B+/Stable (Reaffirmed)
Term Loan	NA	NA	January 2020	0.26	SMERA B+/Stable (Reaffirmed)
Bank Guarantee	NA	NA	NA	1.50	SMERA A4 (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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