

Press Release

Theme Music Company Private Limited

May 15, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-** (read as **SMERA BB minus**)' and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 5.00 crore bank facilities of Theme Music Company Private Limited. The outlook is '**Stable**'.

Theme Music Company Private Limited (TMC), incorporated in 2008 is engaged in the trading of musical instruments and music books. The company's operations are spread across Delhi, Bangalore, Mumbai and Goa.

Key Rating Drivers

Strengths

- **Experienced management**

TMC was promoted by Mr. Bhupendra Chaturvedi and Mr. Rajendra Chaturvedi in 2008. The promoters possess over two decades of experience in the trading of musical instruments. SMERA believes that TMC will continue to benefit from the extensive experience of the promoters and long term relationships with suppliers and customers.

- **Moderate financial risk profile**

The company needs to investment in showrooms for distribution of its products. This resulted in an outstanding long term debt of Rs. 5.20 cr as on 31 March, 2016. The gearing stood at 2.07 times as on 31 March, 2016 as compared to 3.41 times as on 31 March, 2015. The networth has been modest at Rs. 2.62 cr on 31 March, 2016 as against Rs. 2.31 cr in the previous year. TMC maintained a comfortable operating profit margin of 12.64 per cent in FY2016 (8.36 per cent in FY2015) on account of favourable foreign exchange rates and its market position as one of the few suppliers of the digital and traditional pianos of the 'Kawai' brand. The healthy profitability metrics resulted in comfortable debt protection metrics marked by interest coverage ratio of 2.10 times in FY2016 (3.08 times in FY2015) and Debt Service Coverage Ratio (DSCR) of 1.55 times in FY2016 (2.63 times in FY2015). However, SMERA expects some moderation in the DSCR over the medium term on account of a gradual increase in debt servicing commitments.

Weaknesses

- **Small scale of operations**

TMC is an exclusive distributor for Kawai Corporation (digital and traditional pianos) and generates around 93 percent sales from the said company. TMC is thus dependent on Kawai for timely supply of products. Any decline in demand for the said products can adversely affect TMC's operating cash flows. The scale of operations is small marked by total revenue of Rs. 12.25 cr in FY2016 as against Rs.11.80 cr in FY2015. The company's ability to scale up operations while maintaining its profitability margins shall be a key credit monitorable.

• Susceptibility of operating performance

TMC imports its products from Japan (Pianos), Europe and US (music books). The profitability margins are thus susceptible to volatility in foreign exchange rates.

Analytical Approach

SMERA has taken a standalone view of the entity.

Outlook: Stable

SMERA believes that TMC will maintain a stable outlook over the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of sustained and significant growth in operating income while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of sustained decline in debt protection metrics and/or further increase in financial leverage metrics.

About the Rated Entity - Key Financials

TMC reported profit after tax (PAT) of Rs. 0.31 cr on operating income of Rs. 12.25 cr in FY2016 as compared to profit after tax (PAT) of Rs.0.32 cr on operating income of Rs.11.80 cr in FY2015.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto 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. Cr.)	Ratings/Outlook
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB- / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

Arindam Som Analyst - Rating Operations Tel: 011-49731321 arindam.som@smera.in	
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ABOUT SMERA

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