

Press Release

08 June, 2017

Linear Enterprises

Rating Assigned

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|--------------------------------------|--------------------------|
| Total Bank Facilities Rated * | Rs.6.70 Cr. |
| Long Term Rating | SMERA B/ Outlook: Stable |
| Short Term Rating | SMERA A4 |

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (read as **SMERA B**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 6.70 crore bank facilities of Linear Enterprises. The outlook is '**Stable**'.

Linear Enterprises (LE), established in 1991 is an Aurangabad-based proprietorship concern engaged in the repair and maintenance of switchgears and other machinery parts. The firm undertakes contracts (installation, repairing, servicing, commissioning and erection testing) on turnkey basis. Promoted by Mrs. Manisha Panchakshari, LE also trades in isolators, rectifiers, transformers, switchgears, on load tap changers, etc.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

LE was established in 1991 by Ms. Manisha Panchakshari who possesses more than two decades of experience in the said business.

- Moderate financial risk profile**

The firm has moderate financial risk profile marked by gearing of 1.03 times as on 31 March, 2016 as against 0.72 times in the previous year. The Interest coverage ratio stood at 4.69 times in FY2015-16 as against 4.43 times in FY2014-15. The net cash accruals stood at Rs.1.62 crore in FY2015-16 as against Rs.0.34 crore in FY2014-15.

Weaknesses

- Small scale of operations**

The scale of operations is small despite being in operation for more than two decades. The firm exhibits an uneven trend in its operating income since it is largely dependent on government tenders (around 95 per cent). The tender-based nature of operations makes it vulnerable to order cyclicity. In FY2016, LE reported operating income of Rs. 15.07 crore as against Rs. 3.44 crore in FY2015. Further, the firm reported revenue of Rs. 8.00 crore (Provisional) in FY2017.

- Working capital intensive operations**

The operations are working capital intensive marked by gross current assets of 270 days in FY2015-16 and 339 days in FY2014-15. The high gross current assets are due to the increase in receivables from customers. The cash credit facility has been fully utilised as on date.

• Proprietorship constitution of the firm

LE being a proprietorship firm is susceptible to the risk of withdrawal of capital at will.

Analytical Approach

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

Outlook: Stable

SMERA believes that LE will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected cash accruals on the back of sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, LE has reported profit after tax (PAT) of Rs. 1.57 crore on operating income of Rs. 15.07 crore as against PAT of Rs. 0.28 crore on operating income of Rs.3.44 crore in the previous year. The networth stood at Rs. 3.30 crore in FY2015-16 as against Rs.1.44 crore in FY2014-15.

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>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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 |
|------------------------------------|------------------|----------------|----------------|-----------------------------|------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.70 | SMERA B / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A4 |

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ABOUT SMERA

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