

Press Release

Sri Balaji Assemblies And Plastics Private Limited

28 June, 2017

Rating Assigned



Total Instruments Rated*	Rs.32.50 Cr
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 32.50 crore bank facilities of Sri Balaji Assemblies And Plastics Private Limited. The outlook is '**Stable**'.

Established in 1988 as a proprietorship firm, Sri Balaji Assemblies And Plastics Private Limited (Sri Balaji Assemblies) was converted to a private company in 2003. The company was promoted by Mr. D. Sridhar and is led by four brothers, Mr. D. Sridhar, Mr. L. Narasimhan, Mr. D. Parthasarathy and Mr. D. Sundarrajan. Sri Balaji Assemblies manufactures electrical panels and pumps for power sub stations and the agricultural industry. The company also assembles automotive wiring harnesses, cover and brush plates, ignition coils and caters to the auto electrical industry.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The promoters possess experience of nearly three decades in the auto ancillary industry.

- **Established relations with reputed customers**

Sri Balaji Assemblies has long term relations of over two decades with Lucas TVS Limited for its auto ancillary components. Additionally, the company caters to a reputed client base - General Electric, Areva T&D Limited, Grease Cotton Limited, Schneider Electric Limited among others in the electrical, electronics and agriculture industry.

- **Healthy financial risk profile**

The financial risk profile is marked by healthy debt protection metrics, net worth and moderate gearing. The interest coverage and debt service coverage ratios stand healthy at 3.49 times and 2.86 times respectively in FY2017 (Provisional) compared to 2.92 times and 2.50 times respectively in FY2016. The net worth base stood comfortable at Rs 19.68 crore in FY2017 (Provisional) as compared to Rs 16.25 crore in FY2016. During FY2017, the company infused equity of Rs 2.26 crore resulting in overall reduction in the debt-equity level to 1.34 times (Provisional) compared to 1.39 times in FY2016. The NCA/TD stands comfortable at 0.15 times in FY2017 (Provisional) as against 0.14 times in FY2016.

- **Stable growth in revenue, margins and net cash accruals**

The scale of operations increased to Rs 113.16 crore (Provisional) in FY2017 from Rs 94.85 crore in FY2014 registering a cumulative annual growth rate of 6.06 per cent in the last three years. The rise in operating income is mainly on account of increase in order execution for Lucas TVS Limited and General Electric. With stable growth in operating income and fall in copper prices, the company registered higher operating margins of 6.42 per cent in FY2017 (Provisional) from 5.21 per cent in

FY2015. The net cash accruals increased to Rs 3.88 crore in FY2017 (Provisional) from Rs 1.98 crore in FY2015. Operating income is expected to increase in FY2017-18 with the commencement of operations of a new unit in Thirumudivakkam, Chennai from June, 2017. The unit will supply electric panels and engine control units(ECU) exclusively for General Electric.

• **Prudent working capital cycle**

The company has prudent working capital cycle marked by Gross Current Asset (GCA) days of 109 in FY2017 (Provisional) as against 108 days in FY2016. The GCA days emanate from the collection period and inventory holding period of 69 days and 38 days respectively in FY2017 (Provisional) as against 71 days and 33 days respectively in the previous year. The company on an average utilises around 75 per cent of its bank limit.

Weaknesses

• **Customer concentration risk**

Sri Balaji Assemblies has customer concentration risk with around 80 per cent revenue coming from a single customer - Lucas TVS Limited. Further, the company's fortunes are largely dependent on the automobile industry.

• **Volatility in raw material prices**

The raw material costs constitute, on an average nearly 75 per cent of the total revenue during the review period (FY2014-FY 2017). Hence, the profit margins are susceptible to fluctuations in the prices of copper.

• **Competition from other players in the industry**

The company faces competition from other players in the highly competitive auto ancillary industry.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone financial and business risk profile of Sri Balaji Assemblies.

Outlook: Stable

SMERA believes that Sri Balaji Assemblies will maintain a stable outlook over the medium term owing to its experienced management and established relationship with customers. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues while achieving sustained improvement in profit margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected revenues leading to fall in margins or deterioration in the financial risk profile due to higher working capital requirement

About the Rated Entity - Key Financials

For FY2016, Sri Balaji Assemblies reported Profit after Tax (PAT) of Rs.1.53 crore on total operating income of Rs.102.45 crore compared with PAT of Rs 0.90 crore on total operating income of Rs.98.89 crore in FY2015. In FY2017, the company reported Profit after Tax (PAT) of Rs.2.13 crore on total operating income of Rs.113.16 crore (Provisional).

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>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	SMERA BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	31-May-2023	3.37	SMERA BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	31-May-2023	1.88	SMERA BB- / Stable (Assigned)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3
Proposed	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Aniruddha Dhar Analyst - Rating Operations Tel: 033-66201212 aniruddha.dhar@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

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.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*