

Press Release

Rainbow Enterprises (RE)

13 September, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 Cr
Long Term Rating	SMERA B+/Outlook:Stable

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs.15.00 crore bank facilities of Rainbow Enterprises (RE).

Rainbow Enterprises, a Chennai-based proprietorship concern, was established in 2007 by Ms. U. Thiruselvi. The constitution was changed to a partnership firm in 2012 and Ms. Sumithra joined in as a partner. The firm is engaged in the trading of tiles and sanitary ware in Chennai.

List of key rating drivers and their detailed description

Strengths

Experienced management: Ms. U. Thiruselvi and Ms. Sumithra, Partners have experience of over a decade in the trading of tiles and sanitary ware.

Weaknesses

Modest scale of operations: The firm has modest scale of operations with revenue of around Rs.50.67 crore in FY2017 compared to Rs.34.03 crore in FY2016. The firm faces intense competition in the tile and sanitary ware trading segment thus limiting its pricing flexibility.

Below capital structure and moderate coverage indicators: The firm has a below capital structure with low net worth of Rs.1.53 crore as on 31 March, 2017 compared to Rs.0.91 crore as on 31 March, 2016. The overall debt increased year-on-year to Rs.13.09 crore as on 31 March, 2017 which includes cash credit of Rs.7.89 crore, mortgage loan of Rs.2.94 crore and unsecured loan of Rs.2.26 crore. The gearing stood high at 8.53 times as on 31 March, 2017 as against 9.83 times as on 31 March, 2016. The TOL to TNW ratio also stood high at 8.83 times as on 31 March, 2017 and 10.78 times as on 31 March, 2016.

The interest coverage ratio stood moderate at 1.59 times in FY2017 compared to 1.55 times in FY2016. The DSCR stood at 1.40 times in FY2017 as against 1.34 times in FY2016.

Working capital intensive operations: The firm has moderately high GCA of 107 days in FY2017 as against 115 days in FY2016 which mainly includes debtors of 56 days and 47 days in FY2017. The liquidity is stretched which is reflected from fully utilised cash credit limit during February to July, 2017.

SMERA believes that efficient working capital management will be crucial to maintain a stable credit profile of RE.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook of RE will remain stable owing to the extensive experience of the promoters in the business. The outlook may be revised to 'Positive' if the firm is able to improve its overall financial risk profile or scale up operations with improvement in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or further weakening of the profitability margins.

About the Rated Entity

For FY2016-17 (Provisional), RE reported net profit of Rs.0.75 crore on operating income of Rs.50.67 crore, compared to net profit of Rs.0.39 crore on operating income of Rs.122.99 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	8.00	SMERA B+ (Assigned)	-	-	-	-	-	-
Proposed Cash Credit	LT	7.00	SMERA B+ (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	8.00	SMERA B+/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	7.00	SMERA B+/Stable (Assigned)

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

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Manager – Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in
Reema Gangola, Manager – Rating Operations, Tel:022-67141111 Email: reema.gangola@smera.in	

ABOUT SMERA

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