

## Press Release

### SRI VARUN AQUA ENTERPRISES

December 12, 2017

#### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 7.00 Cr.
<b>Long Term Rating</b>	SMERA BB- / Outlook: Stable

\* Refer Annexure for details

#### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) on the Rs. 7.00 crore bank facilities of SRI VARUN AQUA ENTERPRISES. The outlook is '**Stable**'.

Sri Varun Aqua Enterprises (SVAE) established in 2004 is an Andhra Pradesh-based partnership firm promoted by Mr. K. Srinivas Reddy, Mr. Dwarampudi Ammireddy and Ms. Kovvuri Somireddy. The firm is engaged in the trading of shrimp feed supplements. The firm buys feed and sells it to shrimp farmers across India.

#### Key Rating Drivers

##### Strengths

- **Experienced management**

SVAE, established in 2004 is an Andhra Pradesh-based partnership firm engaged in the trading of feed (fish food). The firm was promoted by Mr. K. Srinivas Reddy, Mr. Dwarampudi Ammireddy and Ms. Kovvuri Somireddy who possess decades of experience in the feed trading business. This has helped build healthy relations with customers and suppliers.

- **Comfortable working capital cycle**

SVAE has Gross current assets (GCA) of 46 days for FY2017 (Provisional) against 55 days for FY2016. This is mainly on account of inventory days of 7 and debtor days of 39 for FY2017 (Provisional). The working capital cycle (WCC) stood at 42 days for FY2017 (Provisional) against 53 days for FY2016. Further, utilisation of working capital borrowing stood at ~50.00 percent for the past six months ended August 2017.

##### Weaknesses

- **Uneven scale of operations and thin profitability**

The operating income stood at Rs.52.99 crore for FY2017 against Rs.51.35 crore for FY2016 and Rs.55.69 crore for FY2015. Further, the firm has operating margin of 2.28 percent and profit after tax (PAT) of 1.66 percent for FY2017 (Provisional) against operating margin of 2.18 percent and PAT margin of 1.31 percent in the previous year. The profitability remains thin on account of the trading nature of business.

- **Average financial riskprofile**

SVAE has tangible networth of Rs.3.37 crore as on 31 March, 2017 (Provisional) against networth of Rs.2.82 crore as on 31 March, 2016. The gearing (debt-to-equity) stood at 2.13 times as on 31 March, 2017 (Provisional) against 2.64 times as on 31 March, 2016. The total debt mainly comprises working capital borrowings. The Interest coverage ratio (ICR) stood at 3.70 times for FY2017 and 2.53 times in FY2016. The NCA/TD stood at 0.12 times for FY2017 (Provisional) against 0.09 times for FY2016.

##### Analytical Approach

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

### Outlook: Stable

SMERA believes that SVAE will maintain a moderate outlook in the medium term owing to the long standing experience of the promoter in the business. The outlook may be revised to 'Positive' if SVAE achieves more than expected revenue while improving its profit margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the capital structure.

### About the Rated Entity - Key Financials

For FY2016-17 (Provisional), SVAE reported net profit of Rs.0.88 crore on operating income of Rs.52.99 crore compared with net profit of Rs.0.67 crore on operating income of Rs.51.35 crore for FY2015-16. The net worth as on 31 March, 2017 stood at Rs.3.37 crore as against Rs.2.82 crore as on 31 March, 2016.

### 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>
- Trading Entities - <https://www.smera.in/criteria-trading.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	7.00	SMERA BB- / Stable

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