

Press Release

AKSHARA ENTERPRISES PRIVATE LIMITED

15 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 35.00 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 double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 35.00 crore bank facilities of AKSHARA ENTERPRISES PRIVATE LIMITED (AEPL). The outlook is '**Stable**'.

AEPL was established in 2008 and converted to private limited in February 2017. The company deals in IT products of Dell, HP, Lenovo, Acer among others. It also undertakes maintenance and provides services related to networking, internet connectivity to name a few. AEPL is led by Mr. Sudheer Kumar (Chairman), Mr. Sreedhar Rao (Managing Director) and others.

Key Rating Drivers

Strengths

• Experienced management and established relations with suppliers

Mr. Rao and Mr. Kumar possess experience of around three decades in the dealership and distribution of computer hardware. Further, AEPL has long standing relations of nearly a decade with suppliers of Dell, HP, Lenovo, Redington, and HCL among others. The company also caters to the state government. It is currently executing projects for KPMG in Madhya Pradesh and West Bengal. Further, it has undertaken projects for Sify Technologies in Telangana.

• Healthy financial risk profile

AEPL exhibits a healthy financial risk profile marked by net worth of Rs 17.21 crore as on 31 March, 2017 compared to Rs 15.06 crore as on 31st March, 2016. The company has a comfortable debt to equity ratio of 1.26 times for FY2017 compared to 0.84 times for FY2016. The total debt consists of Rs 3.05 crore of unsecured loans, Rs 8.64 crore of channel financing and Rs 10.03 crore of bank overdraft as on 31st March, 2017. The interest coverage ratio stood at 3.48 times for FY2017 compared to 5.86 times for FY2016. SMERA believes that the gearing of the company is expected to improve with reduction in debt and infusion of additional equity of Rs 0.50 crore in FY2018.

• Healthy orders in hand

The company has a healthy order book in hand with a work value of Rs. 60 crore to be executed in FY2018. As of 31 October, 2017 the company executed orders worth Rs 73 crore. Further, the management is in the process of garnering fresh work contracts worth Rs 20 crore which would help in sustaining revenue growth over the medium term.

Weaknesses

- **Tender based business**

While about 80 per cent revenue is generated from the governments of Andhra Pradesh, Telangana and associated bodies, the balance 20 percent is derived from non-governmental institutions such as Institute of Chartered Financial Analysts of India (ICFAI), Vellore Institute of Technology (VIT), Southern Railways among others. The tender based nature of business impacts profit margins given the highly competitive and fragmented nature of the IT industry. Further, the budgetary decisions of the state and central governments have a significant impact on the company's top line.

- **Working capital intensive business**

AEPL's operations are working capital intensive reflected in the high GCA days of 186 in FY2017 as compared to 125 days in FY2016. The GCA days are mainly dominated by high debtors of 148 days in FY2017. The significant increase in debtors is mainly on account of delay in receivables from government entities. SMERA believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of AEPL.

Outlook: Stable

SMERA believes that AEPL will continue to maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company continues to maintain its operating profitability and improve its working capital management. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve sustainable and substantial profitability or if the financial risk profile deteriorates due to more than envisaged working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17, AEPL reported profit after tax (PAT) of Rs 4.95 crore on operating income of Rs.97.06 crore compared with PAT of Rs.4.90 crore on operating income of Rs.156.12 crore for FY2015-16. Further, the company reported net worth of Rs 17.21 crore as on 31 March, 2017 compared to Rs 15.06 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.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to 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	10.00	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB/Stable

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