

Press Release

Shashi Catering Services

December 24, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 10.70 crore (Enhanced from Rs. 7.70 crore)
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 10.70 crore bank facilities of SHASHI CATERING SERVICES (SCS). The outlook is '**Stable**'.

Gujarat based, SCS is a proprietorship concern established in 1996 by Mr. Shashidhar Shetty. It is engaged in providing catering services to large industrial institutions. It has presence in Gujarat, Karnataka, Haryana, Uttar Pradesh, West Bengal and Assam. It caters to clients from both private as well as public sector. The firm serves approximately ~1.5 - 2.0 lac meals per day.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SCS to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

SCS has an operational track record of more than two decades. Mr. Shashidhar Shetty, the proprietor has more than two decades of experience in industrial canteens, administration, hotel management and security management. He is supported by an organized second tier management team.

SCS caters to large industrial institutions. Its clientele include names like Maruti Suzuki India Limited, Indian Oil Corporation Limited, Honda Motorcycle & Scooter (I) Private Limited and Hindustan Coca-Cola Beverages Private Limited, among others. It has presence in Gujarat, Karnataka, Haryana, Uttar Pradesh, West Bengal and Assam. SCS has maintained relations with them for more than a decade which helps it get repeat orders.

Acuite believes that the entity will continue to benefit from its experienced management, established relations with its clientele and wide spread presence.

• Above average financial risk profile

SCS has above average financial risk profile marked by net worth of Rs.17.04 crore as on March 31, 2019 as compared to Rs. 10.61 crore in the previous year. The proprietor has infused capital of Rs. 3.74 crores in FY2019. Out of total debt of Rs. 7.38 crore in FY2019, short term debt consists of Rs. 4.58 crore, long term debt of Rs.2.43 crore and balance is in the form of unsecured loans. The gearing (debt-equity) stood at of 0.43 times as on March 31, 2019 as against 0.49 times in the previous year. Interest Coverage Ratio (ICR) stood comfortable at 4.44 times in FY2019 as against 7.25 times in the previous year. TOL/TNW stood at 3.65 times as on March 31, 2019 as against 6.55 times as on March 31, 2018. TOL/TNW still remains high in spite of significant improvement.

Acuite believes that the firm will maintain an above average financial risk profile over the medium term.

Weaknesses

- **Moderate operating income growth and low profitability**

SCS has recorded operating income of Rs. 195.91 crores in FY2019; Rs. 182.65 crore in FY2018 and Rs. 169.83 crore in FY2017. Operating income has grown at CAGR 7.4 per cent during the period under study. The profitability of the entity has also remained low during the period under study. Operating margins stood at 2.14 percent in FY2019 against 1.51 percent in FY2018. PAT margins stood at 1.37 percent in FY2019 and 1.19 percent in FY2018.

- **Constitution of the entity**

SCS is established as a proprietorship concern. Therefore, it is exposed to inherent risk of capital withdrawal. However the proprietor has infused fresh capital in FY2019. The net worth stood at Rs. 17.04 crore as on March 31, 2019 against 10.61 crore in the previous year.

Rating Sensitivities

- Substantial improvement in scale of operation, while improving profitability over the medium term will be key rating sensitivity.
- Withdrawal of capital and deterioration of the financial risk profile will be key monitorable.

Material Covenants

None

Liquidity Position: Adequate

SCS's current ratio stood moderate at 1.17 times as on 31 March, 2019. SCS maintained unencumbered cash balances of Rs. 2.59 crores as on March 31, 2019. Average utilization of cash credit limits stands comfortable at ~58.61 percent for the six month period ended November 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash balances.

Outlook: Stable

Acuite believes that SCS will maintain 'Stable' outlook in the medium term on account of its experienced management and established market presence. The outlook may be revised to 'Positive' in case the firm registers higher than-expected growth in revenues and net cash accruals. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the profitability and capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	195.91	182.65
Profit After Tax (PAT)	Rs. Cr.	2.68	2.17
PAT Margin	(%)	1.37	1.19
Total Debt/Tangible Net Worth	Times	0.43	0.49
PBDIT/Interest	Times	4.44	7.25

Status of non-cooperation with previous CRA (if applicable)

India Ratings vide its press release dated 23 May, 2018 has mentioned the rating of SCS to be 'IND RA BBB-/Stable/A3' Issuer not cooperating as on 23-May-2018.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Mar-2019	Cash Credit	Long Term	3.00	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Facility	Long Term	0.70	ACUITE BBB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Reaffirmed)
10-Jan-2018	Cash Credit	Long Term	3.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Facility	Long Term	0.70	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Assigned)

*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	3.00	ACUITE BBB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.70	ACUITE BBB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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