

Press Release

Shashi Catering Services

March 24, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.10.70 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its 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. The outlook is '**Stable**.'

The ratings continue to derive comfort from experienced management along with long-track record of operations of over 2 decades, comfortable financial risk profile and sustained double-digit revenue growth of 13-14per cent for the second consecutive year in FY20. However, thin albeit improved operating margin and risk of capital withdrawal constrain the ratings.

About the company

Shashi Catering Services (SCS) is a proprietorship concern established in 1996 by Mr. Shashidhar Shetty. The Gujarat-based firm is engaged in providing catering services to large industrial institutions in both private as well as public sector.

Analytical Approach

Acuite has consolidated the financial and operational risk profiles of SCS - the proprietorship firm and Shashi Catering Services Pvt. Ltd. – together referred to as SCS Group. Consolidation is in the view of similar business activities, common ownership and increased inter-company loans and advances. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

SCS Group has operational track record of 25 years. Mr. Shashidhar Shetty, the promoter of the SCS Group is into the business of industrial catering and other services like administration, hotel management and security management since past 2 decades. After running the proprietorship concern (SCS) for almost 25 years, Mr. Shetty established Sashi Catering Services Pvt. Ltd. in February 2018 to undertake contracts for clients, where private limited constitution is required.

Over the years, under the leadership of Mr. Shetty, the group has not only established long-standing relationship with reputed clients but has also expanded operations in regions other than its home region i.e. Gujarat. Besides Gujarat, SCS Group has presence in Karnataka, Haryana, Uttar Pradesh, West Bengal and Assam. Further, the group is expected to start rendering services in Orissa.

SCS group's clientele includes reputed names like Maruti Suzuki India Limited, Indian Oil Corporation Limited, Hero Motocorp Ltd. and Apollo Tyres Limited, among others. SCS Group has been providing services to many of such reputed clients since last 7-10 years, which helps the group to get repeat orders, thereby protecting revenue visibility.

Acuite believes that the group will continue to benefit from its experienced management and long-

standing relation with its clientele even going ahead.

- **Comfortable financial risk profile**

SCS Group has a comfortable financial risk profile marked by higher net worth, below unity gearing level and above-average coverage indicators.

As on March 31, 2020, the group's net worth improved to Rs.24.09 crore from Rs.17.32 crore as on March 31, 2019. This was a result of capital infusion and accretion to reserve out of higher net profit. The group's net profit increased to Rs.4.09 crore in FY20 from Rs.2.91 crore in FY19.

Higher net worth also enabled the group to keep its gearing position below unity despite an increase in debt levels in FY20. Debt to equity ratio of SCS Group stood at 0.82 times as on March 31, 2020 compared to 0.42 times as on March 31, 2019. Total debt as on March 31, 2020 stood at Rs.19.78 crore comprising, term loans of Rs.16.68 crore, short-term loan of Rs.1.50 crore and loan from director/promoter Rs.1.61 crore. Acuite believes that the group's debt to equity ratio would stand at around 0.30-0.50 times by March 2023, provided no significant debt-funded capex.

The group's interest coverage ratio improved to 5.64 times in FY20 from 4.75 times in FY19. Debt service coverage ratio increased to 3.12 times in FY20 from 1.74 times in FY19. Going ahead, both the coverage indicators are likely to improve further to around 7-8 times by FY23.

- **Sustained strong revenue growth**

In FY20, the group's operating revenue rose by 13.55per cent to Rs.236.99 crore on account of higher orders. FY20 was the second consecutive year of the group registering double-digit revenue growth. In FY19, the group's revenue growth was 14.27per cent. The group's net profit in FY20 stood at Rs.4.09 crore compared to Rs.2.91 crore in FY19.

Going ahead, the group's revenue is expected to grow at a CAGR of around 5-6 per cent during FY21-FY23. While In FY21, the firm would see around 18-20 per cent fall in revenue due to the Covid-19-led disruptions.

Weaknesses

- **Thin albeit improved operating profitability**

SCS Group's EBITDA margin improved to 2.65per cent in FY20 from 2.16 per cent in FY19. This was mainly on account of higher realization. Although, EBITDA margin continued to remain in narrow range of 1.5-3per cent during FY18-FY20. Going ahead too, the operating margin is expected to remain around 2.5-3per cent during FY21-FY23. Rising competitive intensity is expected to keep a lid on the group's pricing power and so on the operating margin

- **Risk of capital withdrawal**

There is a risk of capital withdrawal from the proprietorship concern – SCS, through which the group is generating maximum revenue (over 70per cent in FY20). However, the proprietor continued to infuse fresh capital even in FY2020. The net worth of the proprietorship firm stood at Rs.22.67 crore as on March 31, 2020 compared to Rs.17.04 crore as on March 31, 2019

Rating Sensitivities

- Inability to sustain operating margin
- Capital withdrawal

Material Covenants

No major covenants

Liquidity Position – Adequate

SCS Group has adequate liquidity marked by higher net cash accruals to its maturing debt obligations. The group generated net cash accruals of Rs.4.79 crore for FY20 while its maturing debt obligations were Rs.0.78 crore for the same period. The group maintained unencumbered cash and bank balances of Rs.6.28 crore as on 31, March, 20. The current ratio stood moderate at 1.13 times as on 31 March, 20. The average bank limit utilization stood moderate at ~65 percent in the last ten months ended January, 21.

The cash accruals of the group are estimated to remain in the range of around Rs.4.5 crore to Rs.6

crore during FY21 to FY23 period against up to Rs.2 crore of repayment obligations during the same period. While in FY21, the group would be repaying another Rs.13 crore to Rs.14 crore of term loans against FDs. The repayment would be through liquidation of the FDs.

Acuite believes that the liquidity of the group is likely to remain adequate over a medium term on account of sufficient cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes that SCS Group will maintain 'Stable' outlook in the medium term on account of its experienced management and established market presence along with long-standing relationship with reputed clients. The outlook may be revised to 'Positive' in case the firm registers higher than expected growth in revenue and operating margin. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the profitability and so in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	236.99	208.71
PAT	Rs. Cr.	4.09	2.91
PAT Margin	(%)	1.72	1.39
Total Debt/Tangible Net Worth	Times	0.82	0.42
PBDIT/Interest	Times	5.64	4.75

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

India Ratings vide its press release dated 10 July 2020 has mentioned long-term rating of Shashi Catering Services as 'BB Issuer Not Cooperating' and short-term rating as 'A4+ Issuer Not Cooperating' as on 10 July 2020.

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Dec-2019	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.70	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Reaffirmed)
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	6.25	ACUITE BBB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.45	ACUITE BBB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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