

## Press Release

### Shashi Catering Services

June 17, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.00	-	ACUITE A3   Reaffirmed
Bank Loan Ratings	7.70	ACUITE BBB-   Positive   Reaffirmed   Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	10.70	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

\*Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.10.70 Cr bank facilities of Shashi Catering Services (SCS). The outlook is revised from '**Stable**' to '**Positive**'.

#### Rationale for revision in the outlook:

The revision in the outlook reflects improvement in the revenues in FY2022, expected improvement in the revenues & margins going forward due to higher orders with moderate working capital operations along with comfortable financial risk profile marked by comfortable gearing & comfortable debt protection metrics and adequate liquidity position marked by adequate cash accruals against moderate repayment obligations. However, the rating is constrained by risk of capital withdrawal owing to proprietorship nature of business.

#### About the Firm

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.

#### About the Group

Shashi Catering Services Private Limited (SCSPL) was incorporated in 2018. The directors of the company are Mr. Shashidhar B. Shetty and Mrs. Pramila Shashidhar Shetty. The Gujarat-based company is also engaged in providing catering services to large industrial institutions in both private as well as public sector.

#### Analytical Approach

#### Extent of Consolidation

- Full Consolidation

## **Rationale for Consolidation or Parent / Group / Govt. Support**

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 inter-company loans and advances.

## **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. The turnover improved and stood at around 300.60 crore in FY2022 majorly due to increase in the orders.

Acuite believes that the group will continue to benefit from its experienced management and long-standing relation with its clientele even going ahead.

#### **>Moderate working capital operations**

The group's working capital operations are moderate marked by efficient inventory and receivable management. The Gross Current Asset days (GCA) stood at 96 days in FY2021 against 93 days in FY2020. The inventory days stood at 1 day in FY2021 against 1 day in FY2020. The debtors' days improved and stood at 47 days in FY2021 against 53 days in FY2020. The creditors' days also improved and stood at 92 days in FY2021 against 116 days in FY2020. However, working capital limits remains utilized at 75-95 percent for last trailing 6 months ended May, 2022. The working capital operations are moderate in FY2022 as well.

Acuite believes that the working capital operations of the group are expected to improve over the medium term.

#### **>Comfortable financial risk profile**

Financial risk profile of the group is comfortable marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics. The gearing stood at 0.23 times as on March 31, 2021 against 0.82 times as on March 31, 2020 on account of plough back of profits to reserves. TOL/TNW stood at 1.80 times as on March 31, 2021 against 3.26 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.30.10 crore as on March 31, 2021 against Rs.24.09 crore as on March 31, 2020. Of the total debt of Rs.6.83 crore as on March 31, 2021, long-term debt stood at Rs.0.24 crore, short-term debt stood at Rs.6.09 crore, unsecured loans stood at Rs.0.31 crore and CPLTD stood at Rs.0.20 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 9.03 times and 1.02 times respectively in FY2021; while DSCR stood at 0.48 times in FY2021. The financial risk profile is comfortable in FY2022 as well marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics.

Acuite believes that the financial risk profile of the group is expected to remain comfortable in the absence of any major debt funded capex in near to medium term.

### **Weaknesses**

#### **>Thin albeit improved operating profitability**

SCS Group's EBITDA margin improved to 3.90 percent in FY2021 from 2.65 per cent in FY2019. This was mainly on account of higher realization. Although, EBITDA margin continued to remain

in narrow range of 2.16-3.90 percent during FY2019-FY2021. Going ahead too, the operating margin is expected to remain around 4.82-5.01 percent during FY2022-FY2024. 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 56 percent in FY2021). However, the proprietor continued to infuse fresh capital even in FY2021. The net worth of the proprietorship firm stood at Rs.25.16 crore as on March 31, 2021 compared to Rs.22.67 crore as on March 31, 2020. Any substantial withdrawal of capital by the proprietor is likely to have an adverse impact on the capital structure.

### Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.
- Capital withdrawal.

### Material Covenants

None

### Liquidity Position: Adequate

SCS group has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The group generated cash accruals in the range of Rs.3.50 crore – Rs.6.99 crore during the last three years through FY2019-21 against moderate repayment obligations in the range of Rs.0.20 crore – Rs.0.78 crore during the same period. It is expected to generate cash accruals in the range of Rs.11.69 crore – Rs.15.52 crore over the medium term, against moderate repayment obligations in the range of Rs.0.18 crore – Rs.0.20 crore. Unencumbered cash and bank balances stood at Rs.7.72 crore as on March 31, 2021 with a current ratio of 1.39 times in the same period. Liquid investments stood at Rs.18.48 crore as on March 31, 2021. However, working capital limits remains utilized at 75-95 percent for last trailing 6 months ended May, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

### Outlook: Positive

Acuité believes that SCS group will maintain a 'Positive' outlook over the medium term owing to its experienced management & long track record of operations, moderate working capital operations, stable in the revenues & margins, comfortable financial risk profile & adequate liquidity position. The outlook may be revised to 'Stable' if the group demonstrates low revenues & margins from the current levels or deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the group further registers lower than expected growth in revenues and profitability or further deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	231.45	236.97
PAT	Rs. Cr.	6.27	4.09
PAT Margin	(%)	2.71	1.73
Total Debt/Tangible Net Worth	Times	0.23	0.82
PBDIT/Interest	Times	9.03	5.64

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

Not Applicable

**Any Other Information**

None

**Applicable Criteria**

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

**Note on Complexity Levels of the Rated Instrument**<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Mar 2021	Proposed Bank Facility	Long Term	1.45	ACUITE BBB-   Stable (Reaffirmed)
	Cash Credit	Long Term	6.25	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	ShortTerm	3.00	ACUITE A3 (Reaffirmed)
24 Dec 2019	Bank Guarantee	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.70	ACUITE BBB-   Stable (Reaffirmed)
20 Mar 2019	Bank Guarantee	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.70	ACUITE BBB-   Stable (Reaffirmed)
10 Jan 2018	Cash Credit	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	0.70	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3   Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.25	ACUITE BBB-   Positive   Reaffirmed   Stable to Positive
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.45	ACUITE BBB-   Positive   Reaffirmed   Stable to Positive

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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