

Press Release

Shashi Catering Services

March 27, 2023



Rating Reaffirmed

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

Rating Rationale

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

Rationale for Reaffirmation

The rating reaffirmation takes into consideration the improvement in scale of operations and profitability, while maintaining a comfortable financial risk profile, moderate working capital operations, and adequate liquidity. The group has reported a revenue increase of 30.38 percent in FY2022 while improving operating margins. The revenue for FY2022 stood at Rs. 301.77 crore against Rs. 231.45 crore in FY2021. For 9M FY2023, the group has achieved a turnover of Rs. 277.40 crore and is expected to close the year in the range of Rs. 345-350 crore. Further, the rating continues to draw comfort from the group's long track record of operations, experienced management, and its association with reputed clientele. However, the rating is constrained by the tender-based nature of the business and the risk of capital withdrawal owing to the proprietorship nature of the business. The sustenance of improvement in operating performance while maintaining its capital structure, adequate liquidity while avoiding elongations in working capital operations will remain a key rating monitorable.

About 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

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 Shashi Catering Services 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 more than 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 for more than past 2 decades. After running the proprietorship concern (SCS) for almost 25 years, Mr. Shetty established Shashi 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. 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. Acuite believes that the group will continue to benefit from its experienced management and long-standing relation with its clientele even going ahead.

Improving operating performance

SCS's operating performance significantly improved marked by operating income of Rs. 301.77 crore in FY2022 against Rs. 231.45 crore in FY2021. The increase in operating income is attributed to an increase in the number of orders and order values. For 9M FY2023, the group has achieved a revenue of Rs. 277.40 crore and is expected to close the year in the range of Rs. 345–350 crore. SCS's operating and net profit margins marked an improvement and stood at 4.88 percent & 3.64 percent in FY2022 as against 3.90 percent & 2.71 in FY2021 respectively. Acuite expects the growth in operating performance to sustain over the medium term.

Moderate financial risk profile

The financial risk profile of the group is comfortable, marked by improving gearing (debt to equity ratio) and total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics. The gearing stood at 0.24 times as of March 31, 2022, against 0.26 times as of March 31, 2021. The tangible net worth of the group improved and stood at Rs. 40.16 crore as of March 31, 2022, against Rs. 30.10 crore as of March 31, 2021, on account of the accretion of profits to reserves. TOL/TNW stood at 1.50 times as of March 31, 2022, against 1.84 times as of March 31, 2021. Of the total debt of Rs. 9.53 crore as of March 31, 2022, long-term debt stood at Rs. 2.44 crore, short-term debt stood at Rs. 6.15 crore, and unsecured loans stood at Rs. 0.95 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt improved and stood comfortable at 17.02 times and 1.23 times, respectively, in FY2022, against 9.03 times and 0.88 times in FY2021, while DSCR stood at 11.79 times in FY2022, against 0.48 times in FY2021.

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.

Moderate working capital operations

The group's working capital operations are moderate marked by efficient inventory and receivable management. The gross current assets (GCA) stood at 90 days in FY2022 against

96 days in FY2021. Inventory days stood at 1 day for both FY2022 and FY2021. The debtor days stood at 43 days in FY2022 against 47 days in FY2021. The group extends a credit period of up to 60 days. The creditors' days stood at 69 days in FY2022 against 92 days in FY2021. The fund based working capital limit utilisation, on the other hand, is high, at 97.48 percent for the nine months ending December 2022 and non-fund based is almost fully utilised during the same period.

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

Weaknesses

Risk of capital withdrawal

There is a risk of capital withdrawal from the proprietorship concern – SCS, through which the group is generating substantial revenue (over 48 percent in FY2022). Any substantial withdrawal of capital by the proprietor is likely to have an adverse impact on the capital structure.

Presence in a highly fragmented industry and tender based nature of operations

The catering industry is highly fragmented and competitive, with a large number of unorganised players in the market; this limits pricing flexibility and bargaining power. Also, tender based nature of operations entails a risk of volatility in revenues and profitability. However, SCS has been able to sustain the operating performance over the year. Acuite believes, SCS will continue to benefit from its experience management over the medium term.

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.
- Withdrawal of capital.

Material Covenants

None.

Liquidity Position

Adequate

SCS has an adequate liquidity position as reflected by the sufficient cash accruals against modest debt repayment obligations. The cash accruals stood sufficient at Rs. 11.77 crore in FY2022 against repayment obligations of Rs. 0.20 crore. Going forward, cash accruals are expected to be in the range of Rs. 14.52 -Rs. 16.65 crore against modest repayment obligations in the range of Rs. 0.26 crore-Rs. 0.28 crore in FY23 and FY24. The unencumbered cash and bank balances stood at Rs. 7.78 crore as of March 31, 2022, with a current ratio of 1.54 times in the same period. Liquid investments stood at Rs. 13.4 crore as of March 31, 2022. The liquidity position is expected to remain adequate over the medium term. Working capital limit utilisation, on the other hand, is high, at 97.48 percent for the nine months ending December 2022.

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

Outlook:Positive

Acuite believes that SCS group will maintain a 'Positive' outlook over the medium term owing to expected improvement in operating performance and financial risk profile while maintaining adequate liquidity. The rating may be upgraded if the company is able to register

a sustained growth in its operating income and profitability margins while maintaining a comfortable financial risk profile and adequate liquidity position. Conversely, the outlook may be revised to 'Stable' in case the group registers a lower-than-expected growth in revenues and margins or elongations in the working capital operations and any deterioration in the financial risk profile & liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	301.77	231.45
PAT	Rs. Cr.	11.00	6.27
PAT Margin	(%)	3.64	2.71
Total Debt/Tangible Net Worth	Times	0.24	0.26
PBDIT/Interest	Times	17.02	9.03

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>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Jun 2022	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.25	ACUITE BBB- Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	1.45	ACUITE BBB- Positive (Reaffirmed)
24 Mar 2021	Proposed Bank Facility	Long Term	1.45	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.25	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3 Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.25	ACUITE BBB- Positive Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.45	ACUITE BBB- Positive Reaffirmed

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About Acuité Ratings & Research

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