

Press Release

15 February, 2018

Sarika Industries Private Limited (SIPL)

Rating Assigned



Total Bank Facilities Rated *	Rs.17.00 crore
Long Term Rating	SMERA BB/ Outlook: Stable
Short Term Rating	SMERA A4+ (assigned)

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. 17.00 crore bank facilities of Sarika Industries Private Limited (SIPL). The outlook is '**Stable**'.

Sarika Industries Private Limited (SIPL), based in Himachal Pradesh, was incorporated in 2010 by Mr. Ajay Rana and Mr. Baljinder Singh. The company manufactures grey oxide, pure lead, lead alloys and raw lead ingots by recycling lead scrap from batteries, sheathing etc

Key Rating Drivers

Strengths

Long standing experience of promoters

The promoters, Mr. Ajay Rana and Mr. Baljinder Singh have two decades of experience in the industry..

Improving scale of operations

SIPL operates on a moderate scale with operating income of Rs.90.63 crore for FY2016-17 compared to Rs. 71.91 crore in FY2015-16 and Rs. 101.99 crore in FY2014-15. The company registered operating income of Rs.99.79 crore from April to December, 2017 (Provisional) and expects to register revenue of ~Rs. 150 crore in FY2017-18.

Moderate financial risk profile

SIPL has moderate financial risk profile marked by moderate coverage and gearing. The Interest Coverage stood at 1.77 times and DSCR at 1.65 times in FY2016-17. The gearing (debt-to-equity ratio) stood at 2.09 times as on 31 March, 2017 compared to 2.33 times as on 31 March, 2016. The net worth stood at Rs.4.03 crore as on 31 March, 2017 including unsecured interest free loan from the promoter of Rs.0.30 crore treated as quasi equity.

Efficient working capital management

SIPL's working capital cycle is comfortable marked by GCA days of 49 for FY2017 as against 57 days for FY2016. The inventory days stood at 16 for FY2017 (17 days for FY2016) and debtors days at 25 days (35 days in FY2016).

Weaknesses

Declining profit margins

The operating margins (EBITDA) declined to 1.78 percent in FY2017 as against 3.26 percent in FY2016. The PAT margin stood at 0.53 percent in FY2017 as against 0.58 percent in FY2016.

Margins are susceptible to fluctuations in raw material prices and forex rates

The profitability margins are susceptible to fluctuations in the prices of raw lead. The company procures raw materials from the government on tender basis and also imports from African countries. On an average, raw material accounts for 95 percent of net sales.

The company is exposed to forex fluctuation risk and also risk related to adverse changes in waste disposal and pollution control policies.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Sarika Industries Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	90.63	71.91	101.99
EBITDA	Rs. Cr.	1.61	2.35	3.55
PAT	Rs. Cr.	0.48	0.42	0.58
EBITDA Margin	(%)	1.78	3.26	3.48
PAT Margin	(%)	0.53	0.58	0.57
ROCE	(%)	13.69	18.76	55.84
Total Debt/Tangible Net Worth	Times	2.09	2.33	3.42
PBDIT/Interest	Times	1.77	1.38	1.31
Total Debt/PBDIT	Times	4.49	3.27	2.59
Gross Current Assets (Days)	Days	49	57	41

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entity in Manufacturing Sector - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History

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	11.00	SMERA BB / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+ (Assigned)

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ABOUT SMERA

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