

Press Release

Shree Aarti Enterprise

March 17, 2018

Rating Upgraded



| | |
|-------------------------------------|--------------------------------|
| Total Bank Facilities Rated* | Rs. 15.00 Cr. |
| Short Term Rating | SMERA BB-/Stable (Upgraded) |

* Refer Annexure for details

Rating Rationale

SMERA has upgraded long term rating to '**SMERA BB-**' (read as **SMERA double B minus**) from '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 15.00 crore bank facilities of Shree Aarti Enterprise. The outlook is '**Stable**'.

SAE, a partnership firm was established in 1998 in Indore, Madhya Pradesh. The firm is engaged in the manufacturing and trading of agro products including cotton bales, oil, and wheat among others. The operations are managed by Mr. Abhishek Goyal, partner who possesses extensive experience in the aforementioned line of business.

Key rating drivers

Strengths

• Established track of operation & experienced management

Shree Aarti Enterprises established as a partnership firm in 1998, in engaged in the manufacturing (ginning and processing) and trading of agro products including cotton bales, oil, wheat among others. Therefore the firm is having operational track record of 19 years. The operations are mainly handled by Abhishek Goyal, partner who possesses extensive experience in the aforementioned line of business and has the experience of 16 years in the same line of business.

Moderate revenue growth

The revenue profile of Shree Aarti Enterprises has experienced incredible growth; revenue has increased from Rs.38.52 cr in FY 2016 to Rs 81.36 cr in FY 2017. Further the firm has booked the revenue of Rs.50.00 crore for the period from April 2017 to Jan 2018.

Moderate Working capital management

The operations are working capital intensive marked by moderate Gross Current Asset (GCA) of 62 days in FY2017 compared to 86 days in FY2016. The firm has moderate inventory and debtor days of 38 and 23 respectively in FY2017. The average cash credit utilisation for the past six months stood at ~90 percent. SMERA believes that efficient working capital management will be crucial for the company in order to maintain a stable credit profile.

Weaknesses

Below average financial risk profile

SAE has below average financial profile is marked by low Interest Coverage ratio of 1.39 times for FY2017 as compared to 1.33 times for FY2016. The gearing of the firm stood at 1.92 times as on 31 March, 2017 as compared to 1.73 times as on 31 March 2016 on account of low net worth position. Net worth stands at Rs.6.09 crores as on March 31, 2017 and Rs.5.19 crores as on March 31, 2016. Tangible Net worth is supported by unsecured loans of Rs.1.85 crore which are subordinated to bank debt and hence treated as quasi.

Declining Profit margins

PAT margin stands at 0.06 per cent in FY 2017 as compared to 0.08 percent in FY2016. However EBITDA margin is uneven i.e. 2.27 per cent in FY 2017 as compared to 3.33 per cent in FY 2016 and 2.09 percent in FY2015

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Shree Aarti Enterprises to arrive at the rating.

Outlook – Stable

SMERA believes that Shree Aarti Enterprises will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company improves its financial risk profile and scale of operations. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the company's financial risk profile and lower than expected profit margins.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 81.36 | 38.52 | 28.80 |
| EBITDA | Rs. Cr. | 1.84 | 1.28 | 0.60 |
| PAT | Rs. Cr. | 0.05 | 0.03 | 0.04 |
| EBITDA Margin | (%) | 2.27 | 3.33 | 2.09 |
| PAT Margin | (%) | 0.06 | 0.08 | 0.14 |
| ROCE | (%) | 8.63 | 8.81 | 8.80 |
| Total Debt/Tangible Net Worth | Times | 1.96 | 1.76 | 2.16 |
| PBDIT/Interest | Times | 1.39 | 1.33 | 1.08 |
| Total Debt/PBDIT | Times | 6.32 | 6.99 | 9.50 |
| Gross Current Assets (Days) | Days | 62 | 86 | 108 |

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <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>

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

None

Rating History (Upto last three years)

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 | 12.00 | SMERA BB-/ Stable (Upgraded) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.29 | SMERA BB-/ Stable (Upgraded) |
| Proposed Bank Facilities | Not Applicable | Not Applicable | Not Applicable | 0.71 | SMERA BB-/ Stable (Upgraded) |

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ABOUT SMERA

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