

Press Release

Selva Stone Export Limited (SSEL)

20 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.12.00 Cr.
Long Term Rating	SMERA BB+/ Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as SMERA double B plus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the above mentioned facilities of Selva Stone Export Limited. The outlook is '**Stable**'.

Incorporated in 2012 by Mr. G. Selvaraj, Selva Stone Export Limited (SSEL) is engaged in cutting, polishing and exporting of granite slabs and stones. The promoters of the entity, Mr. G Selvaraj, Mr. S. Mohan and Mr. Saravanan. The company has its manufacturing unit in Krishnagiri, Tamil Nadu with an installed capacity to process 15, 80, 000 sq. ft. per annum. The day to day operations of the company is managed by Mr. Vasanth Manoharan, who is an independent director in the company.

Key rating drivers

Strengths

Experienced management: The promoters of the entity, Mr. G Selvaraj, Mr. S. Mohan and Mr. Saravanan have around two decades of experience in the granite industry. Prior to setting up of SSEL, promoters were engaged in granite mining business.

Stabilisation of operations and diversified product portfolio: The company started commercial operations from November 2014 onwards. Operating income increased to Rs.33.84 crore in FY2017 as compared to Rs.23.46 crore in FY2016 due to increase in sales volume coupled with increase in realisation. Realisation per square feet increased from ~Rs.299 in FY2016 to ~Rs.317 in FY2017. Operating income also stood at Rs.29.13 crore (provisional) from April 2017 to February 2018. The company's product portfolio includes Black Galaxy, Absolute Black, Ghiblee, Himalayan Blue, Icon Brown, Imperial White, Ivory Brown, Vizag Blue, Kuppam Green, Red Multi, Rose Wood, Ruby Red, Paradiso Sapphire Blue, Tan Brown and Tropical Green.

Healthy financial risk profile: The healthy financial risk profile is marked by moderate net worth, comfortable gearing and healthy debt protection measures. The net worth levels of the entity stood at Rs.13.88 crore as on 31 March, 2017 as compared to Rs.12.14 crore in the previous year. The gearing levels remained moderate at 0.83 times in FY2017 as compared to 1.17 times in FY2016. Gearing levels improved due to increase in net worth levels supported by accretion to reserves and decline in debt levels due to re-payment of deferred payment liability. The interest coverage levels increased to 4.95 times in FY2017 from 4.12 times in FY2016 due to increase in the profitability levels and decrease in interest expense. The net cash accruals to total debt (NCA/TD) stood at 0.24x times in FY2017.

Weaknesses

Working capital intensive operations: The company's operations remained working capital intensive, as reflected in high gross current assets (GCA) of 117 days as on March 31, 2017 compared to 139 days as on March 31, 2016 due to high inventory days. Inventory days as on March 31, 2017 stood at 85 days as compared to 122 days a year earlier. The company stocks high levels of rough granite blocks to service their customers on time.

Susceptibility of profitability to fluctuations in raw material prices and forex rates: The operating profitability of the company remained volatile over the years under review due to fluctuations in raw material prices. Operating margin of the company declined from 17.68 per cent in FY2016 to 14.19 per cent in FY2017. The company's profit margins are exposed to fluctuations in forex rates. While the company exports 100 per cent of its sales to Europe, Middle East and USA, it imports ~10 per cent of its raw material from Sri Lanka and entire consumables from Italy.

Analytical approach: SMERA has considered standalone business and financial risk profiles of SSEL.

Outlook – Stable

SMERA believes that SSEL will continue to benefit over the medium term from its healthy financial risk profile and diversified product portfolio. The outlook may be revised to 'Positive' if the company reports increased operating revenues, sustains its cash accruals thus leading to steady improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or deterioration in the capital structure.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	33.84	23.46	4.50
EBITDA	Rs. Cr.	4.80	4.15	0.68
PAT	Rs. Cr.	1.76	0.65	-0.40
EBITDA Margin	(%)	14.19	17.68	15.18
PAT Margin	(%)	5.21	2.76	-8.84
ROCE	(%)	14.52	8.51	3.83
Total Debt/Tangible Net Worth	Times	0.83	1.17	1.27
PBDIT/Interest	Times	4.95	4.12	1.60
Total Debt/PBDIT	Times	0.67	0.79	0.92
Gross Current Assets (Days)	Days	117	139	410

Any other information:

Not Applicable

Applicable Criteria

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

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Status of non-cooperation with previous CRA (if applicable): Not Applicable.

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	2.00	SMERA BB+/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB+/ Stable (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4+ (Assigned)

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ABOUT SMERA

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