

Press Release

S AND T WELCARE EQUIPMENTS PRIVATE LIMITED

June 25, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 8.75 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 8.75 crore bank facilities of S AND T WELCARE EQUIPMENTS PRIVATE LIMITED (STWL). The outlook is '**Stable**'.

The revision in rating reflects the continuous decline in operating margins, higher than expected debt undertaken by the company and its stretched liquidity position in FY2019.

STWL (erstwhile Shantan Welcare Private Limited) was incorporated in 1998 by Mr. Doraiswamy Shanmugasundaram and Mr. Palaniswamy Thangavel. The company is engaged in the trading of fitness equipment for fitness brands including Steel Flex, Intenza, Sportop and First Degree Fitness.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the STWL to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations:**

STWL was incorporated in 1998 by Mr. Shanmugasundaram, Managing Director and Mr. Thangavel, Director who possess over two decades of experience in the fitness equipment industry. It has a pan India presence with 18 retail stores, 25 franchised outlets and 40 dealers located across India. The company has a diversified customer base and geographical presence which is expected to mitigate revenue fluctuations. The company supplies equipment's to government sports authorities, gyms, hotels, resorts, club houses and hospitals. Acuité believes that the company will maintain a stable business profile backed by the experienced management and established track record of the company.

- Modest financial risk profile; albeit on a low net worth base**

STWL has moderate financial risk profile marked by tangible net worth of Rs. 3.40 crore as on 31 March, 2018 as against Rs. 2.69 crore as on 31 March, 2017. The gearing stood at 0.79 times as on 31 March, 2018 as against 1.25 times as on 31 March, 2017. The debt of Rs. 2.69 crore mainly consists of working capital borrowings of Rs. 2.10 crore, unsecured loans of Rs. 0.38 crore and term loan of Rs. 0.21 crore as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 2.60 times for FY2018 as against 2.37 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 1.82 times for FY2018 as against 1.25 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.68 times as on 31 March, 2018 as against 4.77 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.34 times as on 31 March, 2018 as against 0.20 times as on 31 March, 2017. As informed by the management the company's bank borrowings have increased to Rs. 5.63 crore in FY2019 Provisional (FY2018: Rs. 2.31 crore) to meet the working capital requirements.

Weaknesses

• Decline in profitability

In FY2017-18, the company operated 18 retail stores, 25 franchised outlets and 40 dealer operated stores. However, the company underwent a change in its business model and in FY2018-19, it converted 7 retail stores to dealer operated stores, leading to decline in its operating margins. STWL's operating margins stood at 4.08% in FY2018 as against 4.59% in FY2017. Further, the company has low net profit margins at 1.62% in FY2018 as against 1.54 % in FY2017.

Liquidity Position:

The company has stretched liquidity position with Net cash accruals (NCA) of ~2 percent of its operating income. The net cash accruals of the company stood at Rs. 0.91 crore in FY2018 as against long term maturities of ~Rs. 0.16 crore in FY2018. The current ratio stood at 1.18 times for FY2018. The company maintained Net cash accruals to total debt (NCA/TD) ratio of 0.34 times in FY2018. Acuité expects NCA/TD to remain below 0.20 times over the near to medium term. The company's operations are working capital moderate marked by Gross Current Asset (GCA) of 140 days in FY2018, while its working capital utilisation from banks remained above ~ 90 percent over six months ending March, 2019. Further, it had unencumbered cash and bank balances of over Rs. 0.30 crore as on March, 31 2018. Going forward, Acuité expects the liquidity of the company to remain stretched on account of low net cash accruals as against increasing debt obligations.

Outlook: Stable

Acuité believes that STWL 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 registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	44.18	32.61	27.64
EBITDA	Rs. Cr.	1.80	1.50	1.79
PAT	Rs. Cr.	0.71	0.50	0.38
EBITDA Margin	(%)	4.08	4.59	6.46
PAT Margin	(%)	1.62	1.54	1.37
ROCE	(%)	29.08	24.09	32.19
Total Debt/Tangible Net Worth	Times	0.79	1.25	3.30
PBDIT/Interest	Times	2.60	2.37	1.57
Total Debt/PBDIT	Times	1.39	2.11	2.32
Gross Current Assets (Days)	Days	140	154	94

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Apr-2018	Cash Credit	Long Term	4.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+ / Stable (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Downgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+ (Downgraded)

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About Acuité Ratings & Research:

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