

Press Release

S and T Welcare Equipments Private Limited

September 18, 2020



Rating Reaffirmed & Withdrawn

Total Bank Facilities Rated*	Rs.10.00 Cr. (Enhanced from Rs.8.75 Cr.)
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE BB plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.10.00 Cr bank facilities of S and T Welcare Equipments Private Limited (STWPL). The outlook is '**Stable**'.

About the company

Tamil Nadu based, S and T Welcare Equipments Private Limited (Erstwhile Shanthan Exports and Imports Private Limited) was incorporated in the year 1998 by Mr. Doraiswamy Shanmugasundaram and Mr. Palaniswamy Thangavel. The company is engaged in trading of fitness equipment under its own brand-name 'Welcare'. The company has a pan India presence with 11 retail stores, 14 franchised outlets and 80 dealers as on August 31, 2020. The company also sells products through online platforms. The company also trades fitness equipment of other brands such as Steel Flex, Intenza, Sportop, First degree fitness and many more.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

STWPL was incorporated in 1998 by Mr. Shanmugasundaram, Managing Director and Mr. Thangavel, Director who have over two decades of experience in the fitness equipment trading industry. STWPL has a pan India presence with 11 retail stores, 14 franchised outlets and 80 dealers. The company has a diversified customer base and geographical presence mitigating the risk of revenue fluctuations. The company supplies equipment's to government sports authorities, gyms, hotels, resorts, clubhouses, hospitals and home use. Acuité believes that the company will maintain a stable business profile backed by its experienced management and established track record.

- Moderate financial risk profile**

The financial risk profile of the company is moderate, marked by moderate capital structure and debt protection metrics; albeit constrained by modest net worth. The tangible net worth of the company stood at Rs.5.18 Cr as on 31 March, 2020 (provisional) as against Rs.4.20 Cr in the FY2019, on account of increasing accretion of profits to reserves. The gearing (debt-equity) and Total outside liabilities to Tangible Net Worth (TOL/TNW) levels are moderate at 1.21 and 4.08 times respectively as on 31 March, 2020 (provisional) vis-à-vis 1.35 and 4.12 times, respectively as on 31 March, 2019. The total debt outstanding of Rs.6.28 Cr as on 31 March, 2020 (provisional) constituted of unsecured loans of Rs.0.93 Cr and short term debt of Rs.5.35 Cr. The interest coverage ratio and net cash accruals to total debt are moderate at 2.21 times and 0.20 times, respectively in FY2020 (provisional) as against 2.17 times and 0.18 times, respectively in FY2019. Interest coverage ratio improved on account of increase in EBIDTA in absolute terms. Acuité believes that the financial risk profile of the company is expected to remain moderate over the near to medium term on account of moderate cash accruals.

- **Increasing scale of Operations and operating profit**

STWPL's scale of operations has been improving from Rs.44.18 Cr in FY2018 to Rs.58.69 Cr in FY2020 (provisional). The revenue grew at a CAGR of 15.25 percent in FY2020 to Rs.58.69 Cr. This is driven by continuous demand of the fitness equipment of various brands traded by STWPL. The demand is also attributable to the health and fitness conscious individuals in the current scenario. Despite the pandemic, STWPL's scale has remained higher by approx. 6 percent for the period April 2020 to August 2020. STWPL reported revenue of Rs.26.4 Cr in the period April to August of FY2020 vis-à-vis Rs.21.3 Cr for the same period of FY2020. The operating profit increased from Rs.1.80 Cr in FY2018 to Rs.2.92 Cr in FY2020 (provisional). Acuité believes that the scale of operations and operating profit will continue to improve given the continuous boom expected in the health and fitness industry over the medium term.

Weaknesses

- **Working capital intensive operations**

STWPL's operations are working capital intensive marked by Gross Current Assets (GCA) of 144 days in FY2020 (Provisional) as against 140 days in FY2019 on account of increase in advances paid to suppliers. Debtor days improved to 66 days in FY20 (provisional) as against 70 days in FY19. Inventory days remained constant at 70 days as on 31 March, 2020 (Provisional) and as on 31 March, 2019. The above was partially offset by creditor days stood at 52 days as on 31 March, 2020 (Provisional) as against 56 days as on 31 March 2019. STWPL's working capital limit was utilized at an average of 50 percent over the last six months was ending August, 2020. Acuité believes that the working capital cycle will remain intensive over the medium term.

Rating Sensitivities

- Significant Improvement in revenues and profitability
- Stretch in working capital cycle leading to deterioration in financial risk profile and liquidity

Any Material Covenants

None

Liquidity Position: Adequate

STWPL's liquidity is adequate, marked by sufficient net cash accruals vis-a-vis its maturing debt obligations. STWPL generated cash accruals of Rs.0.91-1.25 Cr during the last three years through FY2018-20 against maturing debt obligations of merely 0.16 Cr over the same period. The cash accruals are estimated to be around Rs.1.60-2.40 Cr during FY2021-23 against its repayment obligations in the range of Rs.0.50-Rs.0.67 Cr. STWPL had low unencumbered cash and bank balances of Rs.0.48 Cr as on March 31, 2020 (provisional). The current ratio stood moderate at 1.22 times as on March 31, 2020 (provisional). Further, the working capital limits of the company remained utilized at 50 percent for the last six months ending August 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that STWPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and established track record. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues and profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue and profitability, stretch in its working capital cycle leading to deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	58.69	48.25
PAT	Rs. Cr.	0.98	0.80
PAT Margin	(%)	1.66	1.67
Total Debt/Tangible Net Worth	Times	1.21	1.35
PBDIT/Interest	Times	2.21	2.17

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
25-Jun-19	Cash Credit	Long Term	4.00	ACUITE BB+/ Stable (Downgraded)
	Letter of Credit	Short Term	4.50	ACUITE A4+ (Downgraded)
	Bank Guarantee/Letter of Guarantee	Short Term	0.25	ACUITE A4+ (Downgraded)
10-Apr-18	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+ (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE BB+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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