

Press Release

Sri Lakshmi Enterprises

May 10, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs.6.00 crore bank facilities of Sri Lakshmi Enterprises. The outlook is '**Stable**'.

Established in 2014, Sri Lakshmi Enterprise (SLE) is a partnership firm based at Tiruppur (Tamil Nadu). The partners are Mr. Paramasivam, Mr. Ramalingam and Mrs. Sharmeela. The firm is engaged in the business of mobile phone distribution for brands including Vivo, Lava Mobile phones and its accessories in Tiruppur and Coimbatore.

Key Rating Drivers

Strengths

• Significant growth in revenue

The firm has reported significant revenue growth of ~112 percent with operating income of Rs.87.19 crore in FY2017 as against Rs.40.95 crore in FY2016. Further, in FY2018, SLE has reported revenues of about Rs.120.5 crore (provisional). The significant revenue growth has been attributed to increase in retailer base, and increase in the penetration of 4G handsets in rural parts. The firm is also in the process to become sole supplier for Supreme Paradise Store which will have positive impact on the revenue. The market shares of Vivo and Reliance Jio is improving and proposed dealership of Nokia, Honor and Lenovo mobiles, SLE is expected to see a growth in revenues over the medium term.

• Diverse retailer base

SLE supplies mobile phones and accessories to more than 400 general retailers and modern traders such as Supreme Paradise, Chennai Mobiles and Magic Mobiles. Since the firm has a diverse retailer base, it has a lower customer concentration risk. SMERA believes that the promoters' extensive experience of over two decades in the trading industry is expected to help in scaling up of the business volumes and cementing new relations.

Weaknesses

• Weak operating margins and PAT margin

The firm has witnessed deterioration of operating margin from 0.40 percent in FY2016 to 0.24 percent in FY2017 and PAT margin has dropped to 0.26 percent in FY2017 from 0.43 percent in FY2016. The margins are significantly lower even after considering the trading nature of the business.

• Supplier concentration risk

The firm derives above 70 percent of revenue from distribution of Vivo phones which exposes it to a high level of supplier concentration risk. The firm is expecting to become an authorised dealer for OPPO, Lenovo, Honor and Nokia in FY2019 leading to a lowering of supplier concentration risk in the near term.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Sri Lakshmi Enterprise to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on Sri Lakshmi Enterprise will remain 'Stable' over the medium term on account of the extensive experience of the partners and the improving business risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected improvement in profitability while improving the capital structure and diversifying its product/supplier base. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle or less-than-expected growth in revenue would deteriorate the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	87.19	40.95	9.77
EBITDA	Rs. Cr.	0.21	0.16	0.02
PAT	Rs. Cr.	0.22	0.18	0.06
EBITDA Margin	(%)	0.24	0.40	0.25
PAT Margin	(%)	0.26	0.43	0.57
ROCE	(%)	14.51	19.75	17.29
Total Debt/Tangible Net Worth	Times	0.32	0.23	0.82
PBDIT/Interest	Times	17.48	6.23	0.00
Total Debt/PBDIT	Times	1.80	1.34	5.22
Gross Current Assets (Days)	Days	32	58	62

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

Not applicable

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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 (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	5.00	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4

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ABOUT SMERA

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