

Press Release

S R SETH AND SONS

May 28, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.8.00 Crore.
Long Term Rating	SMERA BB-/ Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA B minus**) and short Term Rating of '**SMERA A4**' on the Rs.8.00 crore bank facilities of S R SETH AND SONS. The outlook is '**Stable**'.

M/s S.R. SETH AND SONS was established in 1949 as a partnership firm. Mr. Sunit Seth and his wife, Mrs. Mukta Seth are the partners with a profit sharing of 50 percent each. The firm is engaged in trading of electric pump motor alternators and DG sets. The firm has three offices located in Delhi. The firm is exclusive authorised Dealer of Crompton Greaves limited since 1949. The firm's business caters to home, agro and industrial segments.

Key Rating Drivers

Strength

Established presence and improving business risk profile

S R Seth and Sons was established in 1949. The firm has been an exclusive authorised dealer of Crompton group since the beginning of the firm. The firm has to its credit a few loyal customers with relations for nearly five decades. Further with increasing corporatisation and modernisation, the demand for DG sets has increased. As a result, the revenues have improved at a compound annual growth rate of 23 percent over four years through FY2018. Revenues on provisional basis for FY2018 stood at about Rs.50.4 crore. SMERA believes that the revenues and business risk profile is expected to improve over the medium term supported by improving off-take from all the segments.

Weaknesses

Below-average financial risk profile: The financial risk profile of the firm is marked by high total outside liabilities to total network (TOL/TNW), and below-average debt protection metrics. TOL/TNW is below-average at 3.6 times (provisional) as of March 31, 2018 as compared to 3.66 times in the previous year. The same is low due to trading nature of operations and low profitability margins. The operating margins are low at about 1.9 times for last two years through FY2017. Further, the margins are volatile as seen in the previous years in the range of 2.6-3.6 percent. Low profitability margins have impacted the debt protection metrics of Interest Coverage Ratio at 1.51 times and net cash accruals to total debt at 0.05 times for FY2017. The cash accruals are about Rs.0.27 crore against which its maturing debt obligations are about Rs.0.22 crore which are tightly matching. The tight cash accruals is exerting pressure on the liquidity as reflected in high utilisation of its bank lines at about 95 percent over the past four months through April, 2018. Though the gearing is moderate at about 1.7 times (provisional) as of March 31, 2018, SMERA believes that the financial risk profile of the firm is expected to be below-average over the medium term, marked by low operating margins and working capital intensive operations.

Working capital intensive operations: The operations are moderately working capital intensive as reflected in high Gross Current Assets (GCA) of 156 days as on March 31, 2017. The GCA comprise of inventory days of about 110 and debtor days of about 40, which has been the trend. As the firm is dealing in several products related to home, agro and industrial segments the inventory is high. SMERA believes that the firms operations continue to be working capital intensive over the medium term.

Outlook: Stable

SMERA believes that S R Seth and Sons will continue to maintain a 'Stable' outlook over the medium term on account of the experienced partners and established presence for nearly seven decades. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle, thus, exerting pressure on the profitability and liquidity.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	47.43	29.08	27.00
EBITDA	Rs. Cr.	0.91	1.05	0.69
PAT	Rs. Cr.	0.15	0.10	(0.03)
EBITDA Margin	(%)	1.92	3.61	2.55
PAT Margin	(%)	1.92	3.61	2.55
ROCE	(%)	9.17	9.15	9.18
Total Debt/Tangible Net Worth	Times	1.11	0.82	2.59
PBDIT/Interest	Times	1.51	1.38	1.54
Total Debt/PBDIT	Times	5.24	5.03	10.74
Gross Current Assets (Days)	Days	156	221	164

Any other information:

Not Applicable

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of S R Seth and Sons to arrive at this rating.

Applicable Criteria:

- Trading entities- <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.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):

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
Secured overdraft against hypothecation (SODH)	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4/Stable (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Ratings Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in Bhavani Sankar Oruganti Sr. Rating Analyst Tel: +91-40-4005 5452 Email: bhavani.sankar@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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