

Press Release

Shree Info System Solutions Private Limited

November 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 7.50 crore bank facilities of Shree Info System Solutions Private Limited. The outlook is '**Stable**'.

Incorporated in 2011 by Mr. Sesha Chowdary, Shree Info System Solutions Private Limited (SIPL) is engaged in trading of computer peripherals and other IT products. The company trades in products such as laptops, desktops, Audio and Video conferencing, headsets, printers, scanners among others. The company has corporate office located in Chennai and branch offices in Bangalore, Vijayawada, Visakhapatnam, Secunderabad, Mumbai, New Delhi, Cochin and Kolkata.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

SIPL is promoted by Mr. Sesha Chowdary who possess around a decade of experience in the trading of Computers and IT peripherals. SIPL has a competent management supported by a team of well qualified and experienced second line personnel. The company has established relationship with IT companies such as Tata Consultancy Services Limited, WIPRO Limited, HCL Technologies Limited for supply of computers and IT peripherals. The operations and supplies are well spread across 9 South Indian cities to service the clients. The company's revenues witnessed a compound annual growth rate of 43 percent over three years through FY2018 (provisional) at Rs.92.22 crore. SIPL has reported revenues of Rs.62.00 crore in H1FY2019 and is expecting revenues to cross one billion. Acuité believes that SIPL continues to benefit from the promoter's experience and regular order inflows to improve the business risk profile over the medium term.

• Comfortable financial risk profile

SIPL's financial risk profile is marked by moderate gearing levels, healthy debt protection metrics and moderate total outside liabilities to total net worth (TOL/TNW). The gearing (debt-to-equity) is moderate at 0.87 times in FY2018 (Provisional) as against 1.09 times in FY2017. Net worth is modest at Rs.6.57 crore as on March 31, 2018 (Provisional) against Rs.5.27 crore as on March 31, 2017. TOL/TNW is moderate at 2.7 times, an improvement from 3.36 times in FY2017. The debt protection metrics of net cash accruals to total debt and interest coverage ratio are healthy at 0.24 times and 6.22 times in FY2018 (Provisional) vis-à-vis 0.18 times and 5.19 times in FY2017, respectively. SIPL's cash accruals are modest at Rs.1.37 crore; it has no repayment obligations. Its cash accruals are expected to be in the range of Rs.2.0 - 3.0 crore over the medium term supported by expected improvement in revenues. Acuité believes that the financial risk profile is expected to improve supported by moderate cash accruals though constrained by modest net worth.

- **Efficient working capital operations**

SIPL's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 75 days as on March 31, 2018 (Provisional) as against 131 days as on March 31, 2017. The GCA days improved in the years under review mainly due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days are at 28 in FY2018 (Provisional), since the company maintains inventory for a month. The debtor days stood at 43 days as on March 31, 2018 (Provisional) and provides credit period of 30 days to its customers. To augment the working capital requirement, it avails moderate credit of about 30 days which supports in moderate utilisation of its working capital limits at about 72 percent over the past six months through June, 2018. Its current ratio is comfortable at 1.62 times as on March 31, 2018 (Provisional). Acuité believes that with improving revenues, moderate reliance on working capital is expected the operations continue to be working capital efficient over the medium term.

Weaknesses

- **Modest scale of operations in the highly-fragmented IT trading industry and declining profitability**

SIPL's revenues are modest in the highly fragmented IT trading industry; its revenues are at Rs.92.2 crore in FY2018, though a significant improvement from Rs.31.30 crore in FY2016. However, the industry is dominated by several organized and unorganised players with healthy revenues. Also, with commoditised nature of supplies, intense competition and reputed clientele, SIPL faces pricing flexibility, restricting any significant growth in profit margins. Though the revenues improved to Rs.92.20 crore in FY2018 from Rs.31.30 crore in FY2016, the margins have sharply declined to 2.5 percent from 3.7 percent in FY2016. Acuité believes that sustaining the profitability while improving its revenues are key rating sensitivity factors.

Outlook: Stable

Acuité believes that SIPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in the profitability, or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	92.22	52.09	31.31
EBITDA	Rs. Cr.	2.33	1.79	1.15
PAT	Rs. Cr.	1.30	0.96	0.63
EBITDA Margin	(%)	2.52	3.43	3.68
PAT Margin	(%)	1.41	1.85	2.02
ROCE	(%)	19.35	18.12	25.19
Total Debt/Tangible Net Worth	Times	0.87	1.09	0.97
PBDIT/Interest	Times	6.22	5.19	9.21
Total Debt/PBDIT	Times	2.47	3.12	3.61
Gross Current Assets (Days)	Days	75	131	154

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

None

Any other information

None

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)

Not Applicable

*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	6.00	ACUITE BB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+

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About Acuité Ratings & Research:

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