

Press Release

Srinithi Enterprises Private Limited

February 13, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.12.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.12.00 crore bank facilities of SRINITHI ENTERPRISES PRIVATE LIMITED. The outlook is '**Stable**'.

The Chennai based, Srinithi Enterprises Private Limited (SEPL) was incorporated in 2009. The company is engaged in processing and trading of milk and milk products such as butter, ghee and Skimmed milk powders. The company is led by fourth generation of family, Mr. Dhandapani Chinnasamy, Mrs. Dhanalakshmi Dhandapani, Mr. Anguraj Ramalingam, Mr. Muralidharan and Mrs. Renuka Devi.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, Mr. Dhandapani Chinnasamy, Mrs. Dhanalakshmi Dhandapani, Mr. Anguraj Ramalingam, Mr. Muralidharan and Mrs. Renuka Devi, have experience of more than two decade in Milk products industry. Further, the promoters currently running the business are the fourth generation of family. The experience has helped to develop good understanding of local markets and establish a healthy relationship with customers and farmers. Acuité believes that SEPL will continue to benefit from promoters' extensive experience over the medium term.

- **Moderate working capital cycle**

The working capital is moderate marked by GCA days of 28 in FY2019 as against 37 days in FY2018. The inventory holding period is moderate at 17 days, as the company is into the processing and trading of perishable products. The company runs business on cash basis. Hence, debtor days and creditor days stood at 2 and 6 in FY2019 as against 12 days for both in FY2018, respectively. Acuité believes that the working capital operations of SEPL will continue to remain moderate over the medium.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is average marked by low net worth, moderate gearing and debt protection metrics. The net worth of the company stood low at Rs.10.07 crore as on 31 March 2019 as against Rs.8.12 crore as on 31 March 2018. The gearing of the company stood at 1.57 times as on 31 March, 2019 as against 1.61 times as on 31 March, 2018. The total debt of Rs.15.84 crore consists of working capital borrowings of Rs.12.97 crore, term loan of Rs.2.56 crore and unsecured loans from NBFCs of Rs.0.31 crore. The interest coverage ratio (ICR) of the company stood at 3.08 times for FY2019 as compared to 2.50 times for FY2018. The debt service coverage ratio (DSCR) of the company stood at 1.63 times in FY2019 as compared to 1.17 times in FY2018. The net cash accruals against the total debt stood moderate at 0.13 times in FY2019 as compared to 0.11 times in FY2018. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

- **Competitive and fragmented business**

SEPL operates in a highly competitive and fragmented industry characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company.

Liquidity position: Adequate

The company has adequate liquidity profile marked by sufficient net cash accruals to its maturing debt obligations. SEPL generated cash accruals of Rs.1.97-2.03 crore during the last two years through FY2019, while its maturing debt obligations were in the range of Rs.0.66-0.83 crore over the same period. The cash accruals of the company are estimated to remain around Rs.2.50-4.00 crore during 2020-22, while its repayment obligation are estimated to be around Rs.0.33-1.01 crore over the same period. The working capital operations of company are moderate marked by gross current asset (GCA) days of 28 in FY2019. The company maintains unencumbered cash and bank balances of Rs.2.78 crore as on 31 March, 2019. The current ratio stands at 1.39 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accrual against repayments over the medium term.

Rating Sensitivity

- High debt funded capex plan leading to deterioration in debt protection indicators.
- Substantial improvement in scale of operation and profitability margins over the medium term.

Material covenants

None

Outlook: Stable

Acuite believes that SEPL will maintain a 'Stable' outlook on account of its experienced management. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals as a result of sharp decline in operating margins or deterioration in financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	476.81	305.16
PAT	Rs. Cr.	1.95	1.41
PAT Margin	(%)	0.41	0.46
Total Debt/Tangible Net Worth	Times	1.57	1.61
PBDIT/Interest	Times	3.08	2.50

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
29-Nov-2018	Cash Credit	Long Term	9.35	ACUITE BB / Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.65	ACUITE BB / Stable (Assigned)

***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	9.35	ACUITE BB/Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.65	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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