

Press Release

Saraf Corporation India Private Limited

February 24, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.8.90 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A4+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.8.90 crore bank facilities of Saraf Corporation India Private Limited. The outlook is '**Stable**'.

Reason for Upgrade

Rating upgrade follows improvement in working capital management as reflected by GCA of 108 days in FY2020 as against 206 days in FY2019 and 149 days in FY2018. There has been improvement in gearing level to 0.22 times as on 31 March 2020 from 0.52 times as on 31 March 2019.

Acuité has also taken note of the long relations of the company with ONGC which reduces counter party risk. Also contracts are renewed every 3 years which provides stable revenue visibility.

About the company

Mumbai-based, Saraf Corporation India Private Limited (SCPL) was incorporated in 2006 by Mr. Deepak Saraf. The company is engaged in undertaking contracts for catering and housekeeping services, epoxy painting, and trading of garment.

Analytical Approach

For arriving at this rating, Acuité has taken a standalone view of the business and financial risk profile of Saraf Corporation India Private Limited.

Key Rating Drivers

Strengths

- **Experienced Management**

Mr. Deepak Saraf has extensive experience of more than two decades of handling various businesses. Acuité believes that the experience of the management will continue to support the business risk profile over the medium term.

- **Moderate financial risk profile**

SCPL has moderate financial risk profile marked by average net worth, moderate debt protection metrics and low gearing. The net worth of the company stood at Rs.12.35 crore as on 31 March, 2020 as against Rs.11.62 crore as on 31 March, 2019. The company has followed a conservative financial policy in the past, the same is also reflected through its gearing levels. The gearing level (debt-equity) stood stable at 0.22 times as on 31 March, 2020 as against 0.52 times as on 31 March, 2019. The gearing of the company is expected remain low over the medium term on account of absence of any debt funded capex plans. The total debt of Rs.2.70 crore as on 31 March, 2020 consists of long term debt of Rs.1.86 crore, and working capital borrowings of Rs.0.85 crore. Debt to EBITDA stood at 1.20 times in FY2020 as against 3.64 times in the previous year. Interest coverage ratio (ICR) improved to 2.64 times in FY2020 as against 2.34 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.41 times in FY2020.

Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals and in absence of any major debt funded capex in near

to medium term.

- **Improved working capital management**

There has been improvement in the working capital management of the company marked by Gross Current Assets (GCA) of 108 days in FY2020 as against 206 days in FY2019. This is primarily on account of reduction in the inventory holding period to 30 days in FY2020 from 75 days in FY2019 and debtors' collection period reduced to 57 days in FY2020 as against 89 days in FY2019. Current ratio stood healthy at 3.01 times as on 31 March 2020.

Weaknesses

- **Highly competitive industry and customer concentration risk**

The company operates in a highly competitive industry of catering and trading of garments with presence of large number of players in the unorganised sector limiting the bargaining power with customers. Furthermore, company faces high customer concentration as one customer contributed around ~99 percent of the revenue in FY2020 however, the risk gets mitigated on account of long standing relationship with the said customer.

Liquidity Profile: Adequate

The company has adequate liquidity marked by average net cash accruals to its maturing debt obligations. TIPL generated cash accruals of Rs.1.11 crore in FY2020 against debt obligations of Rs.0.26 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.1.20 crore to 1.80 crore during FY2021-23. Average cash credit limit utilization by the company stood at ~35 percent during the last six months ended January, 2020. The company maintained unencumbered cash and bank balances of Rs.2.03 crore as on 31 March, 2020. The current ratio stood at 3.01 times as on 31 March, 2020.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of average cash accruals against no major debt repayments over the medium term.

Rating Sensitivities

- Lower than expected operating performance
- Significant improvement in profitability margins
- Improvement in working capital management

Outlook: Stable

Acuité believes that the outlook of the SCPL will remain 'Stable' over the medium term on account of experienced management and consistent growth in revenue. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues while improving profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital requirements leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	47.73	27.87
PAT	Rs. Cr.	0.73	0.41
PAT Margin	(%)	1.52	1.48
Total Debt/Tangible Net Worth	Times	0.22	0.52
PBDIT/Interest	Times	2.64	2.34

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Applicable

Applicable Criteria

- Entities in Service Sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of 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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Mar-2020	Cash Credit	Long Term	5.50	ACUITE B+ (Indicative-Downgraded)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Indicative-Downgraded)
	Bank Guarantee	Short Term	1.65	ACUITE A4 (Indicative-Downgraded)
14-Jan-2019	Cash Credit	Long Term	5.50	ACUITE BB-/ Stable (Assigned)
	Letter of Credit	Short Term	1.75	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.65	ACUITE A4+ (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	5.50	ACUITE BB/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.65	ACUITE A4+ (Upgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Deepesh Pamnani Analyst - Rating Operations Tel: 011-49731315 deepesh.pamnani@acuite.in	

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