

## Press Release

Saraf Corporation India Private Limited

March 31, 2022

## Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.40	-	ACUITE A4+   Reaffirmed
Bank Loan Ratings	5.50	ACUITE BB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	8.90	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

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

### Rationale for Reaffirmation

The rating factors its comfort from experienced management, healthy financial risk profile with pre-payment of long term loan in current financial year and stagnant scale of operations. However, the rating remains constraint by moderate working capital cycle and high competitive nature of industry with customer concentration risk.

### 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, Acuite 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. The experience of the management is reflected through improved scale of operations Y-o-Y, revenue has increased from Rs 27.87 Crores in FY 2019 to Rs 47.73 Crores in FY 2020 to Rs 49.85 Crores in FY 2021. And also, they have already achieved a revenue of Rs 36.57 crores till January 2022 and are expecting to achieve a revenue of Rs 50 crores in this fiscal year.

Acuité believes that the experience of the management will continue to support the business risk profile over the medium term.

### **>Healthy Financial Risk Profile**

SCPL has a healthy financial risk profile marked by healthy networth, moderate gearing and comfortable debt protection metrics. The Networth of the company stood at 14.19 Cr as on 31st March, 2021 as against 12.35 Cr as on 31st March, 2020. The gearing levels stood stable at 0.26 times as on 31st March 2021 as against 0.22 times as on 31st March 2020. The gearing of the company is expected remain low over the medium term on account of absence of any debt funded capex plans. Total Debt of 3.68 Cr consists of 1.77 Cr of Long term loans, 1.52 Cr of Working Capital Loans and 0.38 Cr of Unsecured intercorporate loans. Debt to EBITDA stood at 1.08 times in FY2021 as against 1.20 times in FY2020. Interest Coverage ratio stood at 6.40 times in FY2021 as against 2.64 times in FY2020. Net Cash accruals to Total Debt stood at 0.59 times in FY2021 as against 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.

### **Weaknesses**

#### **>Moderation of Working Capital**

SCPL's has moderate working capital operations marked by Gross Current Assets (GCA) of 163 days in FY2021 as against 108 days in FY2020. This is majorly due to elongated collection period of 140 days in FY2021, debtors majorly constitutes from the sale of ammonium nitrate in the fag end of year.

Acuité believes that SCPL's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

#### **>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 ~77 percent of the revenue in FY2021. However, the risk gets mitigated on account of long standing relationship with the said reputed customer (ONGC).

### **Rating Sensitivities**

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

### **Material covenants**

None

### **Liquidity Position: Adequate**

SCPL has an adequate liquidity position marked by sufficient net cash accruals of 2.18 Cr against maturing debt obligation of 0.17 Cr in FY 2021. The company is expected to generate a cash accruals of Rs 2.26-2.51 Cr against the maturing debt obligations of Rs 1.58 Cr over the medium term. The average bank limit utilisation stood at ~47% for the past 6 months ending January 2022. The company has maintained unencumbered cash balance of 1.28 Cr in FY21 as against 2.03 Cr in FY20.

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.

### **Outlook: Stable**

Acuité believes that the outlook of the SCPL will remain 'Stable' over the medium term on account of experienced management and comfortable financial risk profile. 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

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	49.85	47.73
PAT	Rs. Cr.	1.82	0.73
PAT Margin	(%)	3.66	1.52
Total Debt/Tangible Net Worth	Times	0.26	0.22
PBDIT/Interest	Times	6.40	2.64

### 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-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Feb 2021	Letter of Credit	Long Term	1.75	ACUITE A4+ (Upgraded from ACUITE B+)
	Cash Credit	Long Term	5.50	ACUITE BB   Stable (Upgraded from ACUITE B+)
	Bank Guarantee	Long Term	1.65	ACUITE A4+ (Upgraded from ACUITE B+)
13 Mar 2020	Cash Credit	Long Term	5.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	1.65	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Downgraded and Issuer not co-operating*)
14 Jan 2019	Letter of Credit	Short Term	1.75	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.65	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	5.50	ACUITE BB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.65	ACUITE A4+   Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BB   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+   Reaffirmed

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### About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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