

Press Release

Swaraj Enterprises

April 26, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.66 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs.6.66 crore bank facilities of Swaraj Enterprises (SE). The outlook is '**Stable**'.

Established in 2015, SE is a partnership firm engaged in manufacturing of furniture. It manufactures furniture for schools, hospitals, offices, house and shops. These furniture are of wooden, cushion and plywood, among others. The day to day operations are managed by its partners, Mr. Suresh Parkale and Mrs. Hemlata Suresh Parkale. Some of its customers are Frontier Automotive Private Limited, Manas Resort Private Limited, Alpha Feature School and Siddhi Construction to name a few. Also, it provides furniture for around 50 to 52 shop owners.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

SE commenced operations from 2015. The partners possess experience of over a decade in furniture industry. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers. Acuité believes that SE will continue to benefit from its experienced management and established relationship with customers.

Weaknesses

- **Small scale of operations and profitability**

The company reported moderate revenue growth marked by operating income of Rs.3.85 crore in FY2018 as against operating income of Rs.1.28 crore in FY2017. However, the operating margins of the company declined to 31.05 percent in FY2018 from 43.62 percent in FY2017.

- **Intensive working capital operations**

SE has intensive working capital operations marked by high Gross Current Assets (GCA) of 512 days in FY2018 as against 516 days in FY2017. The inventory and debtor levels stood at 436 and 166 days in FY2018 as against 79 and 323 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~95 percent in the last six months. Acuité believes that the working capital requirement will continue to remain intensive over the medium term on account of the nature of the business.

- **Average financial risk profile**

The financial risk profile is average marked by low net worth and moderate gearing and debt protection measures. The net worth of the company is low at Rs.2.70 crore as on 31 March, 2018 as against Rs.0.50 crore as on 31 March, 2017. The gearing of the company has stood at 2.12 times as on March 31, 2018 as against 11.41 times as on 31 March, 2017. The total debt of Rs.5.72 crore includes term loans of Rs.3.48 crore, unsecured loans from related parties of Rs.1.37 crore and working capital borrowing of Rs.0.87 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.72 times as on 31 March, 2018 as against 12.88 times as on 31 March, 2017. The modest revenue levels coupled with declining operating margins have resulted in average debt protection measures. Interest Coverage Ratio (ICR) stood at 1.81 times in FY2018 as against 1.76

times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2018 as against 0.04 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.81 times in FY2018 as against 1.76 times in FY2017.

Liquidity position

SE has average liquidity marked by average net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.01 to 0.53 crore during the last three years through 2016-18, while its maturing debt obligations were around Rs.0.70 crore over the same period. The cash accruals of the group are estimated to remain around Rs.0.85 to 2.30 crore during 2019-21 while its repayment obligation is estimated to be around Rs.0.70 Crore. The firm's operations are working capital intensive as marked by high gross current asset (GCA) days of 512 in FY 2018. This has led to high reliance on working capital borrowings, the cash credit limit in the firm remains utilized at 95 percent during the last 6 months period ended December 2018. The firm maintains unencumbered cash and bank balances of Rs.0.01 crore as on March 31, 2018. The current ratio of the group stands at 1.68 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to improve over the medium term on account of improving scale of operations and net cash accruals.

Outlook: Stable

Acuité believes that SE will maintain 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in SE's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	3.85	1.28	0.68
EBITDA	Rs. Cr.	1.19	0.56	0.09
PAT	Rs. Cr.	0.01	(0.04)	0.00
EBITDA Margin	(%)	31.05	43.62	13.68
PAT Margin	(%)	0.18	(2.85)	0.32
ROCE	(%)	9.16	6.24	6.37
Total Debt/Tangible Net Worth	Times	2.12	11.41	7.87
PBDIT/Interest	Times	1.81	1.76	1.06
Total Debt/PBDIT	Times	4.79	10.19	26.98
Gross Current Assets (Days)	Days	512	516	409

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	2.00	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.02	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B / Stable

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About Acuité Ratings & Research:

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