

Press Release

Srishti Enterprises

January 30, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.10.00 crore bank facilities of SRISHTI ENTERPRISES. The outlook is '**Stable**'.

Chandigarh based, Srishti Enterprises (SE) was established in 2008 by Mr. Sandeep Gupta and is engaged in the business of interior designing work. Firm mainly undertakes projects for government bodies and at present has an unexecuted order book position of Rs.56.86 crore.

Analytical Approach

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

Key Rating Drivers

Strengths

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

The promoter of SE, Mr. Sandeep Gupta has been in the interior designing business for more than a decade which gives him extensive experience in the aforementioned industry. Further, having more than a decade of operational track record has enabled the firm to maintain healthy relations with its customers and suppliers. The extensive experience of the promoters is also reflected through its stable revenue growth rate. The revenue of the firm has grown at a compounded annual growth rate (CAGR) of ~23 per cent to Rs.31.75 crore over the last three years through FY 2019.

Acuite believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit SE over the medium term.

- **Improved Operating levels and profitability**

Operating income of SE grew at 38.67 per cent in FY2019 over FY2018 and stood at Rs.31.75 crore. The increase in operating level is on the account of increase in the order book position of the firm. Further, operating margins improved 9.54 percent in FY2019 as against 8.76 percent in FY2018. Net profit margins also improved to 5.26 percent in FY2019 as against 5.19 percent in the previous year.

- **Moderate financial risk profile**

SE has moderate financial risk profile marked by average net worth, moderate debt protection metrics and moderate gearing. The net worth of the firm has sequentially improved to Rs.10.66 crore as on 31 March, 2019 as against Rs.6.57 crore as on 31 March, 2018 on account of accretion to reserves and infusion of fresh capital by the proprietor.

The gearing level (debt-equity) stood stable at 1.08 times as on 31 March, 2019 as against 1.56 times as on 31 March, 2018. The gearing of the firm is expected to remain low over the medium term on account of repayment of unsecured loans and absence of any debt funded capex plans. The total debt of Rs.11.55 crore as on 31 March, 2019 consists of long term debt of Rs.3.00 crore, unsecured loans of Rs.2.20 crore and working capital borrowings of Rs.6.35 crore. Debt to EBITDA stood at 3.73 times in FY2019 as against 4.96 times in FY2018

Interest coverage ratio (ICR) still stands moderate at 2.43 times in FY2019 as against 2.93 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.16 times in FY2019 and 0.13 times

in FY2018.

Acuite believes that the financial risk profile of the firm is expected to remain moderate backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

• Working capital intensive nature of Operations

Operations of SE are working capital intensive marked by Gross Current Assets (GCA) of 218 days in FY2019 as against 175 days in FY2018. This is on the account high debtors' collection period of 109 days in FY2019 as against 110 days in FY2018 and inventory holding period 76 days in FY2019 as against 31 days in FY2018. Further firm got credit period 113 days in FY2019 from its suppliers. Current ratio stood at 1.33 times as on 31 March, 2019 as against 1.15 times as on 31 March, 2018.

• Tender driven business

The firm's performance is susceptible to the tender based nature of activities and intense competition among other players bidding for the projects.

Key rating Sensitivity Factors

- Deterioration of Financial risk profile.
- Improvement in Working Capital management

Material Covenants

Not Applicable

Liquidity Position: Adequate

SE has adequate liquidity marked by average net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs.1.82 crore in FY2019 against debt obligations of Rs.0.36 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.2.92 crore to Rs.3.98 crore during FY2020-22 against repayment obligations in the range of Rs.0.73 crore to Rs.0.60 for the same period. The average bank limit utilization for the last six months ended December 2019 remained 72.20 percent. The firm maintains unencumbered cash and bank balances of Rs.0.10 crore as on 31 March 2019. The current ratio stands at 1.33 times as on 31 March, 2019.

Acuite believes that the liquidity of the firm 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

Acuite believes SE will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	31.75	22.90
PAT	Rs. Cr.	1.67	1.19
PAT Margin	(%)	5.26	5.19
Total Debt/Tangible Net Worth	Times	1.08	1.56
PBDIT/Interest	Times	2.43	2.93

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

CRISIL, vide its press release dated September 26, 2019 had denoted the rating of Srishti Enterprises as 'CRISIL BB/Stable/CRISIL A4+ (ISSUER NOT COOPERATING; Rating Withdrawn)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- 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/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	3.30	ACUITE BB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.70	ACUITE A4+ (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.70	ACUITE BB/ Stable (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE A4+ (Assigned)

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