



SMERA RATINGS LIMITED

Srinar Electronics Private Limited (SEPL)**Rating
Rationale****January 28, 2014**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.50	SMERA BB+/Stable (Assigned)
Proposed Cash Credit	1.25	SMERA BB+/Stable (Assigned)
Term Loan	1.56	SMERA BB+/Stable (Assigned)
Proposed Term Loan	1.75	SMERA BB+/Stable (Assigned)
Letter of Credit	0.45	SMERA A4+(Assigned)
Proposed Letter of Credit	0.15	SMERA A4+(Assigned)
Bank Guarantee	0.15	SMERA A4+(Assigned)

SMERA has assigned a long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.7.81 crore bank facilities of Srinar Electronics Private Limited (SEPL). The outlook is '**Stable**'. The ratings are supported by the company's comfortable financial risk profile, experienced management and reputed clientele. However, the ratings are constrained by the company's modest scale of operations and fluctuating revenues. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates.

SEPL, established in 1985, is a Chennai-based company engaged in manufacturing of radio frequency (RF) connectors used in telecommunication servers and satellites.

SEPL has a modest scale of operations with operating income of Rs.22.31 crore in FY2012-13 (refers to financial year, April 01 to March 31). Moreover, the company has displayed an uneven revenue trend with compound annual growth rate (CAGR) of 5 per cent over FY2009-10 to FY2011-12 due to capacity constraints and susceptibility to technological changes. However, SEPL's revenues increased from Rs.10.84 crore in FY2011-12 to Rs.21.72 crore in FY2012-13 on account of capacity addition. Further, the company registered revenues of Rs.20.18 crore during April 2013 to November 2013.

SEPL derives about 75 per cent of its total revenues through exports to USA and South America. The company does not hedge its forex exposure and is thus susceptible to unfavourable changes in foreign exchange rates.

SEPL is also exposed to volatility in prices of brass and steel rods — the company's main raw materials. SEPL's operating margins have fluctuated in the range of 1.63 per cent to 29.56 per cent during the past five years. However, the company has recently managed to reduce its operating cost by undertaking technological upgradation and resorting to procurement of semi-finished

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components. SEPL posted comfortable net profit margin of 17.89 per cent (net profit of Rs.3.99 crore) in FY2012–13.

SEPL has low leverage at 0.40 times as on March 31, 2013. The company has strong coverage indicators with interest coverage ratio of 10.07 times and cash DSCR of 3.27 times in FY2012–13. SEPL has a moderate liquidity position with average utilisation of working capital limit at 80 per cent during April 2013 to September 2013.

SEPL's business is capital-intensive and requires continuous capacity additions. The company availed term loans of ~Rs.3.55 crore in FY2013–14 for machineries. SEPL has also planned additional capital expenditure towards machineries and building. The total outlay is estimated at Rs.2.33 crore, which is likely to be funded through a term loan of Rs.1.75 crore and internal accruals of Rs.0.58 crore. SMERA believes SEPL's debt-funded capital expenditure plan will have a minimal impact on the company's debt protection metrics.

SEPL benefits from its experienced and qualified management. Mr. V. N. Parthasarathy, Mr. V. N. Vijayaraghavan and Mr. V. N. Srinivasan, directors of SEPL, have around three decades of experience in the electronics industry. Mr. Prasanth (son of Mr. V. N. Parthasarathy), is a qualified engineer with around two years of experience in the company's line of business.

Outlook: Stable

SMERA believes the outlook on SEPL's rated facilities will remain stable over the medium term on the back of the company's long track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company achieves a sustained growth in revenues while registering healthy profit margins and maintaining a comfortable capital structure. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's revenues and profit margins.

About the company

SEPL was established as a partnership firm (named Electro Links) in 1985 and reconstituted as a private limited company in 1990. SEPL is an ISO 9001:2008 certified company engaged in manufacturing of radio frequency (RF) connectors.

SEPL is promoted by Mr. V. N. Vijayaraghavan, Mr. V. N. Parthasarathy, Mr. V. N. Srinivasan and Mr. Prasanth. Mr. V.N. Parthasarathy and Mr. Prasanth are responsible for the day-to-day activities of the company.

For FY2012–13, SEPL reported PAT of Rs.3.99 crore on operating income of Rs.22.31 crore, as compared with PAT of Rs.2.83 crore on operating income of Rs.12.06 crore for FY2012–13. SEPL's

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net worth stood at Rs.9.43 crore as on March 31, 2013, as compared with Rs.5.86 crore a year earlier.

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