



SMERA RATINGS LIMITED

Srinar Electronics Private Limited (SEPL)

*Rating
Rationale*

November 12, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.50	SMERA BBB-/Stable (upgraded from SMERA BB+/Stable)
Proposed Cash Credit	1.25	SMERA BBB-/Stable (upgraded from SMERA BB+/Stable)
Term Loan	1.56	SMERA BBB-/Stable (upgraded from SMERA BB+/Stable)
Proposed Term Loan	1.75	SMERA BBB-/Stable (upgraded from SMERA BB+/Stable)
Letter of Credit	0.45	SMERA A3 (upgraded from SMERA A4+)
Proposed Letter of Credit	0.15	SMERA A3 (upgraded from SMERA A4+)
Bank Guarantee	0.15	SMERA A3 (upgraded from SMERA A4+)

SMERA has upgraded the ratings on the Rs.7.81 crore bank facilities of Srinar Electronics Private Limited (SEPL) to '**SMERA BBB-**' (read as **SMERA triple B minus**) and '**SMERA A3**' (read as **SMERA A three**) from 'SMERA BB+/Stable/SMERA A4+'. The outlook is '**Stable**'. The upgrade is in view of the sustained growth in revenues registered by the company. The upgrade also reflects the company's ability to maintain healthy profitability and comfortable financial risk profile. The ratings are supported by the company's experienced management and reputed clientele. However, the ratings remain constrained by the company's modest-scale operations. 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.

Update

SEPL's revenues increased from Rs.22.31 crore in FY2012-13 (refers to financial year, April 01 to March 31) to Rs.24.37 crore in FY2013-14. The company's operating profit margin declined from 29.56 per cent in FY2012-13 to 26.31 per cent in FY2013-14 on account of renovation expenses (non-recurring in nature) of ~Rs.0.92 crore incurred towards the factory building. SEPL maintained healthy net profit margin of 13.86 per cent in FY2013-14. The company registered revenue of Rs.14.17 crore (provisional) during April 2014 to September 2014.

SEPL's gearing (debt-to-net worth ratio) stood at 0.49 times as on March 31, 2014, as compared with 0.40 times as on March 31, 2013. The company's net worth stood at Rs.11.97 crore as on March 31, 2014, as compared with Rs.9.43 crore a year earlier. SEPL's interest coverage ratio (ICR) is strong at 7.77 times in FY2013-14. The company's comfortable liquidity position is evidenced by low average utilisation (~47 per cent) of working capital limit during April 2014 to September 2014.

SEPL has purchased new machineries worth Rs.1.70 crore (debt-funded capex) in July 2014. The company's installed production capacity has thus increased from 40 lakh units per annum to 48 lakh units per annum. Further, the company plans to undertake capex of Rs.1.47 crore towards extension of

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its existing factory building. The aforementioned capex is likely to be funded through a term loan of Rs.1.14 crore and promoters' funds of Rs.0.33 crore.

SEPL continues to benefit from its experienced management. The directors of the company have around three decades of experience in the electronics industry.

SEPL's profit margins remain exposed to forex fluctuation risk in the absence of hedging arrangement for export receivables.

Outlook: Stable

SMERA believes SEPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues and profit margins while maintaining a healthy financial risk profile. The outlook may be revised to 'Negative' in case of decline in the company's revenues and profit margins, or in case of deterioration in the company's financial risk profile.

About the company

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

SEPL is promoted by Mr. V. N. Vijayaraghavan, Mr. V. N. Parthasarathy, Mr. V. N. Srinivasan and Mr. Prasanth. The overall operations of the company are managed by Mr. V.N. Parthasarathy and Mr. Prasanth (son of Mr. V.N. Parthasarathy).

For FY2013-14, SEPL reported profit after tax (PAT) of Rs.3.38 crore on operating income of Rs.24.37 crore, as compared with PAT of Rs.3.99 crore on operating income of Rs.22.31 crore in FY2012-13. The company's net worth stood at Rs.11.97 crore as on March 31, 2014, as compared with Rs.9.43 crore a year earlier.

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