



SMERA RATINGS LIMITED

Srinar Electronics Private Limited (SEPL)

*Rating
Rationale*

December 30, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	3.75	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)
Term Loan	3.26	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)
Proposed Term Loan	0.05	SMERA BB+/Stable (Downgraded from SMERA BBB-/Stable)
Letter of Credit	0.60	SMERA A4+ (Downgraded from SMERA A3)
Bank Guarantee	0.15	SMERA A4+ (Downgraded from SMERA A3)

SMERA has downgraded the ratings on the Rs.7.81 crore bank facilities of Srinar Electronics Private Limited (SEPL) to '**SMERA BB+**' (read as **SMERA double B plus**) and '**SMERA A4+**' (read as **SMERA A four plus**) from 'SMERA BBB-/Stable/SMERA A3'. The outlook is '**Stable**'.

The downgrade is in view of deterioration in the business risk profile of the company marked by significant decline in revenues and profitability. SEPL's revenues declined from Rs.24.37 crore in FY2013-14 (refers to financial year, April 01 to March 31) to Rs.19.38 crore in FY2014-15. Further the company has registered low revenues of Rs.8.39 crore in H1FY2015-16 when compared to Rs.14.17 crore in H1FY2014-15. The decline in revenues is on account of intense competition and vulnerability to technological obsolescence. The operating profit margin declined from 26.31 per cent in FY2013-14 to 22.92 per cent in FY2014-15 on account of high fixed costs. Further, the net profit margin declined from 13.86 per cent in FY2013-14 to 7.64 per cent in FY2014-15 while the gearing stood at 0.64 times as on March 31, 2015.

The ratings continue to remain constrained by the company's modest-scale of operations, susceptibility of the profit margins to volatility in raw material prices and fluctuations in forex rates. However, the ratings draw support from the experienced management, comfortable gearing and reputed clientele.

Rating Sensitivity Factors

- Ability to scale up revenue while increasing profitability
- Maintaining capital structure while venturing into debt funded capex plan
- Ability to acquire new customers and increasing order book amidst technological obsolescence

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Outlook: Stable

SMERA believes SEPL 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. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profit margins or deterioration in the financial risk profile.

About the Company

SEPL is an ISO 9001:2008 certified company promoted by Mr. V. N. Vijayaraghavan, Mr. V. N. Parthasarathy, Mr. V. N. Srinivasan and Mr. Prasanth to manufacture radio frequency (RF) connectors. The company was established as a partnership firm (Electro Links) in 1985 and converted into private limited in 1990. The overall operations are managed by Mr. V.N. Parthasarathy and his son, Mr. Prasanth.

For FY2014-15, SEPL reported profit after tax (PAT) of Rs.1.48 crore on operating income of Rs.19.38 crore, as compared with PAT of Rs.3.38 crore on operating income of Rs.24.37 crore in FY2013-14.

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