

## SRS Limited

Instrument	Amount Rated	Rating Action
Long Term Fund Based <sup>^</sup>	Rs.597.00 crore	[ICRA]BBB (Negative) (Downgraded)
Short -Term Non Fund Based	Rs.238.00 crore	[ICRA]A3 (Downgraded)
Medium Term: Fixed Deposits	Rs. 225.00 crore	MA- (Negative) / outlook revised to negative

<sup>^</sup> Long Term Fund Based limits are interchangeable with short term non-fund based limits to the extent of Rs. 237.0 crore and in case the limits are availed as short term facilities, short term rating will be applicable. The overall utilization by way of long term fund based and short term non-fund based limits cannot exceed Rs. 597.0 crore

ICRA has downgraded the long-term rating assigned to the Rs 597 crore<sup>1</sup> fund based bank facilities of SRS Limited (SRS) to [ICRA]BBB (pronounced ICRA Triple B) from [ICRA]BBB+ (pronounced ICRA Triple B plus) earlier<sup>2</sup>. ICRA has also downgraded the short term rating assigned to Rs. 238.0 crore non-fund based bank limits to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A2 (pronounced ICRA A two) earlier. The long term fund based limits can also be availed as short term non-fund based limits to the extent of Rs. 237.0 crore with a short term rating of [ICRA]A3. The outlook on the long-term rating is revised to negative from stable earlier. ICRA has reaffirmed the medium term rating of M A- (pronounced M A minus) assigned to Rs. 225.0 crore fixed deposit program of SRS. The outlook on the rating on the fixed deposit rating is revised to negative from stable earlier.

The ratings downgrade and revision in the outlook takes into account the deterioration in ageing profile of the receivables, which as per ICRA's estimates will adversely affect the liquidity profile of the SRS Limited.

As per the sanction terms for the working capital limits from banks, SRS enjoys flexibility to borrow against its receivables which are having an ageing of upto 105 days. As per receivable ageing profile at the end of February 2016, ~ 33% (up from 5% at end of November 2015) of the total receivables are due for more than 105 days thus constraining the ability of SRS to borrow against these receivables and hence its working capital limits, which in-turn has weakened the liquidity profile as also reflected in almost full utilization of the fund based as well as non-fund based limits. ICRA notes that the receivables ageing profile has deteriorated on account of longer credit period extended to some of the export customers.

Moreover, ICRA has been highlighting the concentration risk in the jewellery wholesale business (both domestic and export) which accounts for ~80% of the total revenues and ~99% of the total receivables of SRS. Accordingly, ICRA notes that a significant portion of the receivables pertain to two export customers of SRS and account for ~60% of these receivables due for more than 105 days. These apart, receivables from some of the customers in domestic wholesale jewellery business were also outstanding for more than 105 days at the end of February 2016. Thus, ability of the company to timely recover these receivables, align business practice of credit period with sanction terms for working capital limits sanctioned by banks and maintain a favorable ageing profile of its receivables thereafter will be critical for liquidity and credit profile.

Earlier in December 2015, ICRA had raised the issue pertaining to allegations regarding the deterioration in financial position of SRS group over the last few months in NCR, which accounts for most of SRS group's sales and fixed deposit receipts of SRS Limited. While the management has categorically denied these allegations, ICRA has been closely monitoring the liquidity profile of the company as it could be a key rating sensitivity in the near term. The concerns on liquidity arise from the short maturity profile of these deposits (largely 1 year deposits); non-renewals/pre-mature withdrawals of these deposits amid the allegations can result in liquidity issues for the company. The fixed deposits liabilities of the company remained stable with closing balance of ~Rs 96 crore at end of February 2016 as against Rs 95 crore at end September 2015. During this period the company received despoits totaling Rs 42 crore and repaid deposits of Rs 41 crore.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

The rating also remains constrained by SRS's vulnerability to the fluctuation in the gold prices as the entire gold and jewellery purchase is on fixed price basis, which may result in inventory loss and thereby decline in the profits in case of decline in the gold prices. While the receivable collection had been regular in the past during the period of declining gold prices, however timely collection always remain a concern, given their unsecured nature, concentration towards few customers and limited information on credit profile of the customers. In addition, given the government's regulation through measures such as restriction on gold availability to jewellers for domestic sales, SRS is also exposed to the regulatory changes as it can impact both the sales and profitability of the jewellery business.

Going forward, ability of the company to timely recover its receivables, maintaining a favorable ageing profile of its receivables with satisfactory liquidity thereafter and an improvement in profitability margins will remain key rating sensitivities.

### **Company Profile**

SRS was incorporated as SRS Commercial Company Limited in August 2000 and was later renamed to SRS Entertainment Limited in January 2005. Subsequently the name of the company was changed to SRS Entertainment and Multitrade Limited in January 2009 and the company was renamed as SRS Limited, in July 2009, which is the present name of the company. The numerous changes in the name of the company have been due to changes in nature of the business activities of the company over the years.

SRS currently has presence across diverse business segments such as jewellery, retailing and cinemas, all of which are operated under the company's brand SRS. However, more than 90% of the revenues and most of the profits are accounted by the jewellery business, mostly jewellery wholesale in the domestic market. On standalone basis, for the 9 month period ending December 2016, SRS Limited reported revenues of Rs 3221.71 crore and net profit of Rs 33.28 crore as against revenues of Rs 2823.68 crore and net profit of Rs 37.61 crore in previous corresponding period. Export revenues were 10% of the total revenues in 9MFY16 as against ~19.5% of revenues in 9MFY15.

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*For further details please contact:*

**Analyst Contacts:**

**Mr. Rohit Inamdar** (Tel. No. +91-124-4545847)  
rohit.inamdar@icraindia.com

**Relationship Contacts:**

**Mr. Jayanta Chatterjee** (Tel. No. +91-80-43326401)  
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: **9871221122**

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: **9821086490**

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: **+91 9903394664**

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Bangalore****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: **989986490**

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: **989986490**

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500