

July 27, 2017

## Sri Durga Enterprises

### Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund based limits	25.00	[ICRA]B+(Stable); Re-affirmed
<b>Total</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has re-affirmed the long-term rating at [ICRA]B+ (pronounced ICRA B plus)<sup>1</sup> to the Rs. 25.00 crore<sup>2</sup> fund-based limits of Sri Durga Enterprises (SDE). The outlook on the long-term rating is 'Stable'.

### Rationale

The rating continues to remain constrained by the moderate scale of operations of the firm coupled with its trading nature of operations resulting in the weak operating margins. The rating is further constrained by the stretched capital structure on account of high working capital requirements of the firm owing to higher debtor days resulting in high gearing levels and stretched coverage indicators for FY 2017. The rating also considers competition from other branded and non-branded paper products and the dealership nature of the business which is susceptible to the demand for the Indian Tobacco Company (ITC's) paper products. ICRA also takes into account risks arising from partnership nature of the firm.

However the assigned rating positively factors in the healthy revenue growth of ~12% recorded by SDE in FY 2017 and the rating draws comfort from the experience of promoters in the paper trading business for more than a decade. The rating also positively factors in the healthy demand for the ITC's Specialty and Paper board products

Going forward, the ability of the firm to increase the scale of operations and profitability, while maintaining its working capital needs will be key rating sensitivities.

### Key rating drivers

### Credit strengths

- **Long standing experience of the promoters in paper trading business** - The promoters have more than a decade of experience in the paper trading industry resulting in established relationships with clients and repeat orders from existing clients.
- **Healthy revenue growth of ~12% in FY2017** - SDE has recorded an operating income of Rs 117.16 crore in FY 2017, revenue growth of ~12%, on account of improvement in volumes sold.
- **Diversified Customer Profile** – SDE's customer profile includes the manufacturers and suppliers of carton boxes and packaging boxes, various text book publishers, manufacturers of note books and corrugated boxes, wedding card dealers and manufacturers, etc

<sup>1</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

<sup>2</sup> 100 lakh = 1 crore = 10 million

### Credit weaknesses

- **Low profitability inherent to the trading nature of the business** – SDE has thin operating margins at 3.12% in FY 2017 owing to trading nature of business
- **Weak financial risk profile characterised by high gearing and stretched coverage indicators** - The financial profile of the company is weak characterised by high gearing of 1.66 times and stretched coverage indicators with interest coverage ratio of 1.34 times and NCA/total debt of 8% for FY 2017.
- **High supplier concentration; sales susceptible to the demand fluctuation for ITC's products** - Being the authorised dealer for the products manufactured by ITC, SDE has high supplier concentration with more than 95% of total purchases are from ITC in FY 2017. The sales of SDE are susceptible to the demand fluctuations for ITC's products due to stiff competition from other paper mills.
- **High working capital intensity** - SDE's working capital intensity increased from 25% for FY 2016 to 27% for FY 2017 owing to higher receivables. The debtor days increased to 137 days as on March 31, 2017 from 119 days as on March 31, 2016 on account of extended credit period allowed by the firm to its customers.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable Criteria

[Corporate Credit Rating Methodology](#)

### About the company:

Sri Durga Enterprises (SDE), established in the year 2003, is engaged in the trading of paper and paper boards such as coated and uncoated boards, art boards, triplex boards etc. SDE is an authorised dealer of ITC paper boards and speciality paper division in Coastal Andhra region. All the products are procured from the manufacturing units of ITC located at Bhadrachalam, Kovai and Bollaram units depending upon the availability of the products and requirement from the clients. SDE is promoted by Mr. Pothuri Srinivas Kumar and Smt. Pothuri Madhuri Devi who have been in the business for more than a decade.

**Key Financial Indicators:**

Particulars	FY2016	FY2017
Operating Income (Rs. crores)	104.64	117.16
PAT (Rs. crores)	1.10	1.54
OPBITDA/OI (%)	3.00%	3.12%
RoCE (%)	16.66%	15.78%
Total Debt / TNW (times)	1.65	1.66
Total Debt / OPBITDA (times)	5.51	5.66
Interest coverage (times)	1.22	1.34
NWC/OI (%)	25.07%	26.75%

Source: SDE and ICRA research; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable.

**Rating History for last three years:**

**Table:**

S. No.	Name of Instrument	Type	Amount Rated (Rs. Crore) Amount Outstanding (Rs Crore)	Current Rating (2017) Date & rating	Chronology of Rating History for the past 3 years		
					Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
1	Fund based limits – EDFS	LT		July 2017	March 2016	-	-
			25.00	[ICRA]B+ (Stable)	[ICRA]B+	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Name of the instrument</b>	<b>Date of issuance/ Sanction</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Fund based - EDFS	-	-	-	25.00	[ICRA]B+ (Stable)



## Contact Details

### Analyst Contacts:

**K. Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**R. Srinivasan**

+91 44 4596 4315

[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Sahithya Nekkanti**

+91 40 4067 6524

[sahithya.nekkanti@icraindia.com](mailto:sahithya.nekkanti@icraindia.com)

**Nithya Debbadi**

+91 40 4067 6515

[nithya.debbadi@icraindia.com](mailto:nithya.debbadi@icraindia.com)

### Relationship Contact:

**Jayanta Chatterjee**

+91 80 4332 6401

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



About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved  
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**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: +91 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: +91 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: +91 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****Mr. Jayanta Chatterjee**

Mobile: +91 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: +91 9821086490

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: +91 9821086490

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: +91 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