Rating Rationale

Sony Aircon **16 Mar 2018**

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 12.00 Crores of Sony Aircon.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	12.00	Long Term	BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable
Total	12.00	INR Twelve Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial results of Sony Aircon up to FY 17 & projections Up to FY19, publicly available information & clarification/information provided by the firm.
The rating assigned to the bank facilities of Sony Aircon positively factors experienced proprietor, long track record of operations, growing scale of operations.

The ratings are however, constrained on account of moderate scale of operations,low net profit margins coupled with low net worth base, leveraged capital structure, weak coverage indicators and working capital intensive nature of operations. The rating is further constrained by competition from various organised and unorganised players in Gems & Jewellery (G&J) industry and highly competitive nature of the Fast-moving consumer goods industry.

Going forward the ability of the Company to scale up its revenues while improving profitability margin and capital structure with effective working capital management, service debt repayment timely would be key rating sensitivities.

Description of Key Rating Drivers

Experienced proprietor - The firm is currently being managed by Mr Anurag Bansal. He has experience of around two decades in Gems & Jewellery (G&J) industry and FMCG industry through his association with the same firm.

Long track record of operations- The firm has a considerable track record which has resulted in long-term relationship with suppliers and customers.

Associated with Reputed Brands- The firm is authorised dealer of Daikin air conditioner & franchise of Tanishq Jewellery both the companies are well reputed in markets. The firm enjoys established relationship with its client and supplier.

Moderate scale of operations - Sony Aircon registered a revenue of Rs 46.85 crore in Nov FY 2017-18 as compared to Rs.44.13 crore in FY 2017 showing increase in trend.The firm has projected revenue of Rs.70.27 crore for the period 2018.

Moderate Liquidity- Moderate Liquidity as reflected by moderate current ratio of 1.41 times in FY 17 and increasing trend in FY 18

Low Tangible Net Worth- As per the operation and level of debt the tangible net worth is low at Rs 2.02 Crores**.**

Thin Profitability Margin : Thin Profitability margins indicated by net profit margin of 0.64 % and operating profit margin of 1.15% in FY17 keeping in perspective trading nature of operations.

Leveraged capital structure: The company's capital structure is highly leveraged with gearing of 5.30 times and TOL/TNW of 5.91 times as on March 2017 because of low tangible net worth and higher dependence on bank borrowings & the company's operations are capital intensive in nature coupled with low interest coverage ratio stood to 0.50 times in FY2017 and Debt coverage ratio to 0.98 times (refers to financial year, April 01 to March 31).

Working capital intensive nature of operations- The total operating cycle of the firm stood at 111 days during FY17, primarily on account of high average inventory period of 119 days owing to requirement for display and to meet immediate demand of clients. The average collection period remained around 7 days as the firm mainly deals in retail segment. Average payable period stood around 15 days during FY17 as the purchases are mainly on cash basis or at a low payable period of one week.

Competition from various organised and unorganised players -Sony Aircon operates in Gems & Jewellery (G&J) industry, which is a fragmented industry with a high level of competition from both the

organised and largely unorganised sector and the industry is also susceptible to fluctuation in the prices of gold and diamonds.

Limitation of proprietorship concern: Being a proprietorship firm, the firm is exposed to inherent risk of any withdrawals by the proprietor may impact the capital structure of firm & limitation in terms of management and financial decisions.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Sony Aircon** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Sony Aircon was established in 1997 as a proprietorship firm by Mr Anurag Bansal. The firm is an authorised dealer of Daikin Industries, Ltd.'s Air conditioner and Tanishq Jewellery. The firm is engaged in trading and retail sale of Tanishq branded gold and diamond jewellery and Daikin branded electronic item like air conditioner. The firm currently owns one exclusive retail showroom for each brand located in Agra, Uttar Pradesh. The showroom also has attached workshop facility for the post sales services of air conditioners. The firm sells its products in the domestic market in the regions of Uttar Pradesh and Uttarakhand.

Company Financial Performance

Company generated total operating income of ₹ 44.13 Crs. in FY17. Profit after tax of company stood at ₹ 0.28 Crs. in FY17. The tangible net worth of the company stood at Rs. 2.02 Crs. as on 31-3- 2017. On provisional basis, the company has achieved total operating income of Rs. 46.85 crs. for the 9M FY 2018.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
	Fund Based Cash Credit	Long Term	12.00	**BWR BB- Outlook: Stable**	**N.A**	**N.A**	**N.A**
	Total		**12.00**	**₹ Twelve Crores Only**			

Status of non-cooperation with previous CRA (if applicable)-N.A

Any other information- N.A

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	44.13	51.72
EBITDA	₹ Cr	0.51	0.68
PAT	₹ Cr	0.28	0.31
Tangible Net worth	₹ Cr	2.02	1.78
Total Debt/Tangible Net worth	Times	5.30	6.01
Current Ratio	Times	1.41	1.33

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Trading Entities

- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.
BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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