NSIC – ONICRA

Performance & Credit Rating

SNEHA TECHNO ENGINEERING

VALSAD, GUJARAT

NSIC-ONICRA RATING - SE 3A

"Moderate Performance Capability & High Financial Strength"

***For the Period**: 1st April 2009 to 31st March 2011*

***Report Validity**: 27th July 2012 to 26th July 2013*

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Onicra Credit Rating Agency of India Limited

Table of Contents

1.0. INTRODUCTION

1.1. Small Scale Industry (SSI) Performance and Credit Rating

The Small Scale Industry (SSI) performance and credit rating is a relatively new concept in which the rating agencies give an opinion regarding the general creditworthiness of the SSI and its performance. It includes an objective assessment of the SSI unit on a scale of operating performance, infrastructure facilities, viability of systems, buyer's & vendor's satisfaction, financial resources, creditworthiness, existing working capital arrangements, management style, motivational/ commitment levels and lifestyle of the Proprietor.

Traditionally, an SSI faces the constraints on various ends, especially sourcing of adequate and timely financing. To overcome these difficulties, the Government of India under the Ministry of Small Scale Industry, has signed a memorandum of understanding with ONICRA CREDIT RATING AGENCY OF INDIA LIMITED to provide the Performance and Credit Rating for SSI units.

As a successful individual entrepreneur or a bunch/ group of individuals run most of the SSI units, a different approach is required to assess these units. The Ministry of Finance, Government of India, acknowledged ONICRA as pioneers of individual credit rating in the Economic survey of India way back in 1993-94 itself.

The first & foremost advantage of the performance & credit rating is that a SSI unit gets an independent, experienced and trusted third party opinion on the capability and creditworthiness of the unit. Moreover, it helps the unit to improve upon the identified areas of weaknesses.

1.2. The Rating Process

- Submission of Application for rating by the SSI unit in duplicate along with the SSI's share of rating fee
- Collection of information from the SSI
- Conduct basic research
- Site visit & meeting with the SSI management
- Analysis & preparation of report by the Analysis wing
- Approval of rating by the Rating Committee
- Assign Rating
- Communicate Rating & Rationale to the SSI & NSIC

1.3. Uniform Rating Scale followed by all agencies and approved by Indian Banks Association

Rating Scale of the SSI units on Performance and Credit Parameters under the NSIC Scheme of Rating of the SSI units is as mentioned below:

SE 1A	Highest Performance capability & High Financial strength-Prospects of performance are the highest and the entity has high capacity to meet its financial obligations.
SE 1B	Highest Performance capability & Moderate Financial strength-Prospects of performance are the highest and the entity has moderate capacity to meet its financial obligations.
SE 1C	Highest Performance capability & Low Financial strength-Prospects of performance are the highest and the entity has low capacity to meet its financial obligations.
SE 2A	High Performance capability & High Financial strength-Prospects of performance are high and the entity has high capacity to meet its financial obligations.
SE 2B	High Performance capability & Moderate Financial strength-Prospects of performance are high and the entity has moderate capacity to meet its financial obligations.
SE 2C	High Performance capability & Low Financial strength-Prospects of performance are high and the entity has low capacity to meet its financial obligations.
SE 3A	Moderate Performance capability & High Financial strength-Prospects of performance are moderate and the entity has high capacity to meet its financial obligations.
SE 3B	Moderate Performance capability & Moderate Financial strength-Prospects of performance are moderate and the entity has moderate capacity to meet its financial obligations.
SE 3C	Moderate Performance capability & Low Financial strength-Prospects of performance are moderate and the entity has low capacity to meet its financial obligations.
SE 4A	Weak Performance capability & High Financial strength-Prospects of performance are weak and the entity has high capacity to meet its financial obligations.
SE 4B	Weak Performance capability & Moderate Financial strength-Prospects of performance are weak and the entity has moderate capacity to meet its financial obligations.
SE 4C	Weak Performance capability & Low Financial strength-Prospects of performance are weak and the entity has low capacity to meet its financial obligations.
SE 5A	Poor Performance capability & High Financial strength-Prospects of performance are poor and the entity has high capacity to meet its financial obligations.
SE 5B	Poor Performance capability & Moderate Financial strength-Prospects of performance are poor and the entity has moderate capacity to meet its financial obligations.
SE 5C	Poor Performance capability & Low Financial strength-Prospects of performance are poor and the entity has low capacity to meet its financial obligations.

2.0. UNIT PROFILE

Name	M/s SNEHA TECHNO ENGINEERING
SSI Details	Number: 24/025/11/02860/ PART-II Dated: 05/07/2012 District: Valsad State: Gujarat
Year of Establishment	2008
Works & Office	Plot No. 922, Opposite Aarti Industries, 3rd Phase, G.I.D.C., Village: Vapi, Taluka: Pardi, District: Valsad, Gujarat – 396 195
Contact Details	Mobile: +(91) – 9327665772 Fax: +(91) – 260-2425464 Email: sneha_technoeng@yahoo.in
Constitution	Proprietorship
Name of the Proprietor	Mr. Arvind Rajvali Varma
Entrepreneur's Category	General
Line of Business	Manufacturing & installation of cranes, goods lift, material handling equipments & hoist fabrication
No. of Employees	Permanent – 10 Casuals – 02

2.1. Details of the Proprietor

➢ **Mr. Arvind Rajvali Varma**	**Age**: 32 Years
	Qualification: H.S.C
	Experience: 14 years

2.2. Brief about the unit

M/s SNEHA TECHNO ENGINEERING was established as a proprietorship unit on 11th August, 2008. The unit engages in manufacturing & installation of cranes, goods lift, material handling equipments & hoist fabrication. The unit shares its banking relationship with HDFC Bank, Char Rasta Branch, Vapi. It has future funding requirement of ` 20 Lacs as cash credit limit.

2.3. Site Details

Location	Accessibility	Ownership
Industrial Area	Readily Accessible	Rental

2.4. List of Major Machinery

Sr. No.	Name of Machinery & Equipments	Quantity
1.	Lathe Machine	03
2.	Drill Machine	02
3.	Cutting Machine	02
4.	Slooting Machine	01
5.	Milling Machine	01
6.	Welding Machine	05

2.5. Raw Materials Used

Sr. No.	Name of Raw Material
1.	Mild Steel EN8
2.	Mild Steel EN19
3.	Mild Steel EN9
4.	Round Bars
5.	Plate Channels Angles
6.	Mild Steel Sheet

2.6. Product Range

Sr. No.	Product Name
1.	Hoist
2.	EOT & HOT Crane
3.	Double & Single Girder Crane
4.	Goods Lift
5.	Hydraulic Lift
6.	Material Handling Equipments
7.	Press

2.7. Capacity Utilization

Year Wise/ Machine Wise	Installed Capacity	Utilized Capacity	% Utilization
Year Wise	50 Nos.	20 Nos.	40.00%

2.8. Production Process

Raw Material

↓

Cutting

↓

Sizing on Lathe

↓

Milling

↓

Hobbing

↓

Hardening

↓

Grinding

↓

Installation

↓

Quality Check

↓

Final Product

2.9. Major Customers

- M/s Cello Group – Gujarat
- M/s Wellknown Polyster Limited – Gujarat
- M/s Ramratna Wire Private Limited – Silvassa
- M/s J.M. Engineering – Vapi
- M/s Balbir Steel Division – Silvassa

2.10. Major Suppliers

- M/s Mahavir Steel House – Vapi
- M/s Kesar Steel Suppliers– Vapi
- M/s Delta Electricals – Ahmedabad
- M/s Nidhi Enterprise – Ahmedabad
- M/s Parshavnath Electrial – Vapi

2.11. Associate Concern

Name of the Company	Name of Directors	Position	Line of Business
M/s Chaya Industry	Mr. Arvind Rajvali Varma	Partner	Packaging Paper

2.12. Quality Certification

Quality Certification	Issue Date	Valid up to
ISO 9001:2008	12/07/2011	11/07/2014

3.0. RATING OF THE SSI UNIT

3.1. Rating of the SSI Unit under the Performance & Credit Rating Scheme

The analysis is done based on our Operating Performance and Financial Strength Rating Grid as considered for this purpose. We have evaluated the score of the client as per the parameters therein. The Score is **"SE 3A"** which indicates **'Moderate Performance Capability and High Financial Strength'.**

The validity of the report is from **27th July 2012** to **26th July 2013.**

4.0. KEY FINDINGS OF FINANCIAL ANALYSIS

4.1. Financial Data

A synopsis of the financial position / performance (based on the analysis of financial statements provided to us by the client) is as placed below.

(Amt in ` Lacs)

PARTICULARS	FY10 (Unaudited)	FY11 (Certified)
Turnover	6.75	7.41
Net Purchases	3.29	3.82
Cost of Sales	3.68	4.42
Gross Profit	3.07	2.99
Earning Before Depreciation, Interest and Tax (EBDIT)	1.94	1.85
Indirect Income	0.00	0.00
Net Profit	1.93	1.84
Inventory	0.00	0.00
Current Assets	3.67	4.59
Quick Assets	3.17	4.09
Working Capital Limit	0.00	0.00
Other Current Liabilities	0.00	0.00
Net Working Capital	3.67	4.59
Own Funds (Net Worth)	5.38	6.36
Debt Funds	0.00	0.00
Total Funds	5.38	6.36
Capital Employed	5.38	6.36
Net Worth /Total Assets (%)	100.00	100.00
Average Debtors Collection Period (days)*	***	139

* Average debtors collection period for FY10 was not shown as the opening balances of debtors was not available.

4.2. Balance Sheet (As a % of Total Funds)

PARTICULARS	FY10	FY11
Owner's Fund	100.00	100.00
Debt Funds	0.00	0.00
Current Liabilities	0.00	0.00
TOTAL	**100.00**	**100.00**
Fixed Assets	17.74	15.01
Investments	14.07	12.88
Current Assets	68.18	72.11
TOTAL	**100.00**	**100.00**

The comparative common size statement of the balance sheet expresses the items of the balance sheet as a percentage of total funds. The analysis of the above table reveals the following:

1. In rupee terms the net worth of the unit has increased in the FY11 whereas its contribution as a percentage of total funds has remained same in the FY11. There were no current liabilities & debt funds in any of the FYs under study.

2. The major component of assets comprised of current assets in the FYs under study. The proportions of current assets & fixed assets in the total funds have increased & decreased respectively in the FY11. Investments also formed a proportion of total funds & it has decreased in the FY11

4.3. Income Statement (As a Percentage of the Turnover)

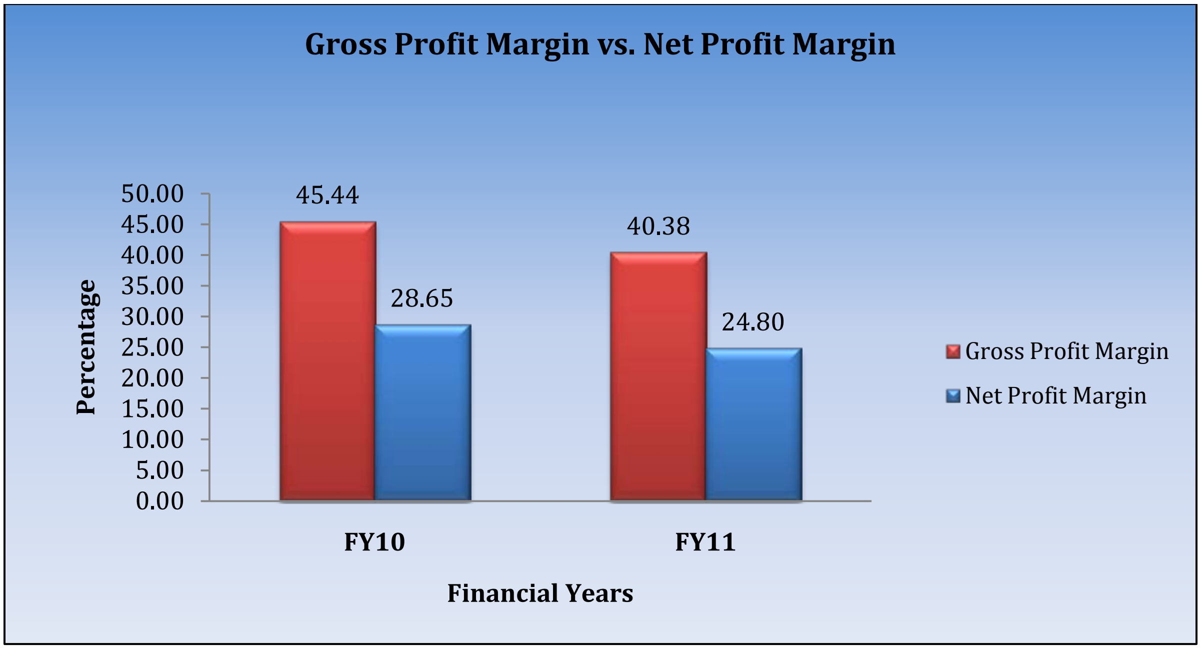
PARTICULARS	FY10	FY11
Turnover	**100.00**	**100.00**
Cost of Sales	54.56	59.62
Gross Profit	45.44	40.38
Operating Expenses	16.73	15.46
Operating Profit	28.71	24.92
Non Operating Expenses (Other than Interest)	0.00	0.00
Indirect Income	0.00	0.00
EBDIT	28.71	24.92
Depreciation	0.00	0.00
EBIT	28.71	24.92
Interest	0.00	0.00
PBT	28.71	24.92
Tax	0.06	0.12
PAT	28.65	24.80

The comparative common size statement expresses the items of the income statement as a percentage of the turnover. The analysis of the common size statement reveals the following:

1. The proportion of the cost of sales has increased in the FY11. It has been moderate i.e. 57.09% on an average in the FYs under study, as a result of which the gross profit margin of the unit has been satisfactory.
2. The proportion of operating expenses has been high i.e. 16.09% on an average in the FYs under study. It has decreased in the FY11.
3. There were no interest expenses in the FYs under study.
4. The net profitability of the unit has been satisfactory i.e. 26.73% on an average in the FYs under study. It has decreased in the FY11.

4.4. Profitability Ratios

(1) Gross Profit Margin vs. Net Profit Margin



Gross Profit Margin *= (Gross Profit / Turnover) * 100*

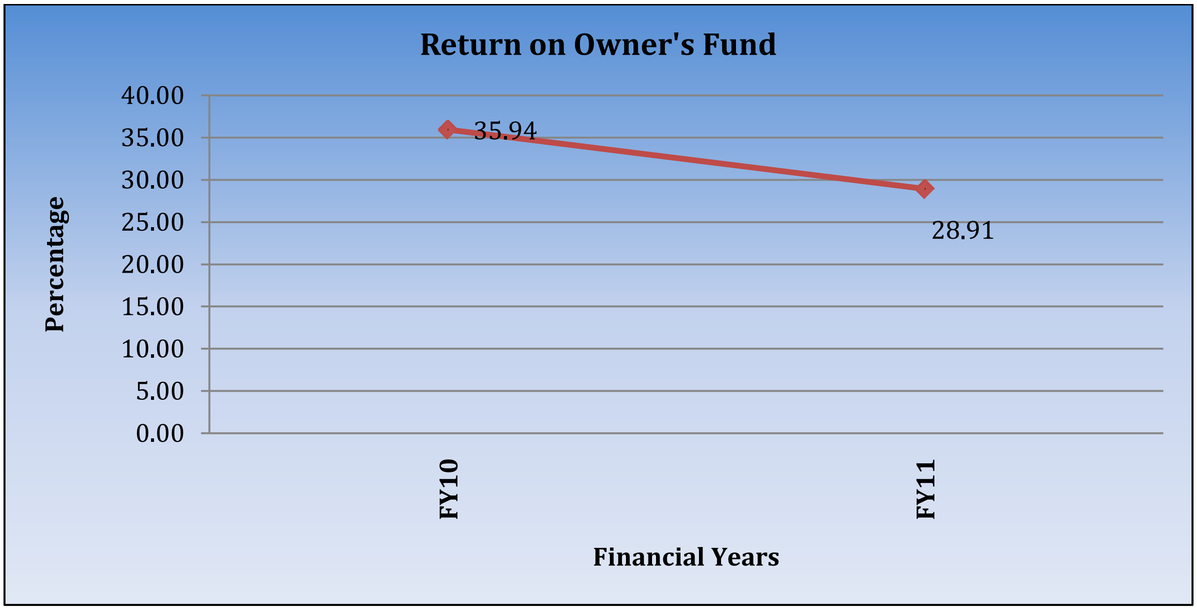
Net Profit Margin *= (Net Profit / Turnover)*100*

The gross profit margin of the unit has been satisfactory in the FYs under study due to a moderate proportion of the cost of sales. It has decreased in the FY11.

The net profit margin of the unit has also been satisfactory in the FYs under study. It has also decreased in the FY11.

Recommendation: The net profit margin of the unit has been satisfactory in the FYs under study. It needs to maintain the same in the coming FYs.

(2) Return on Owner's Fund



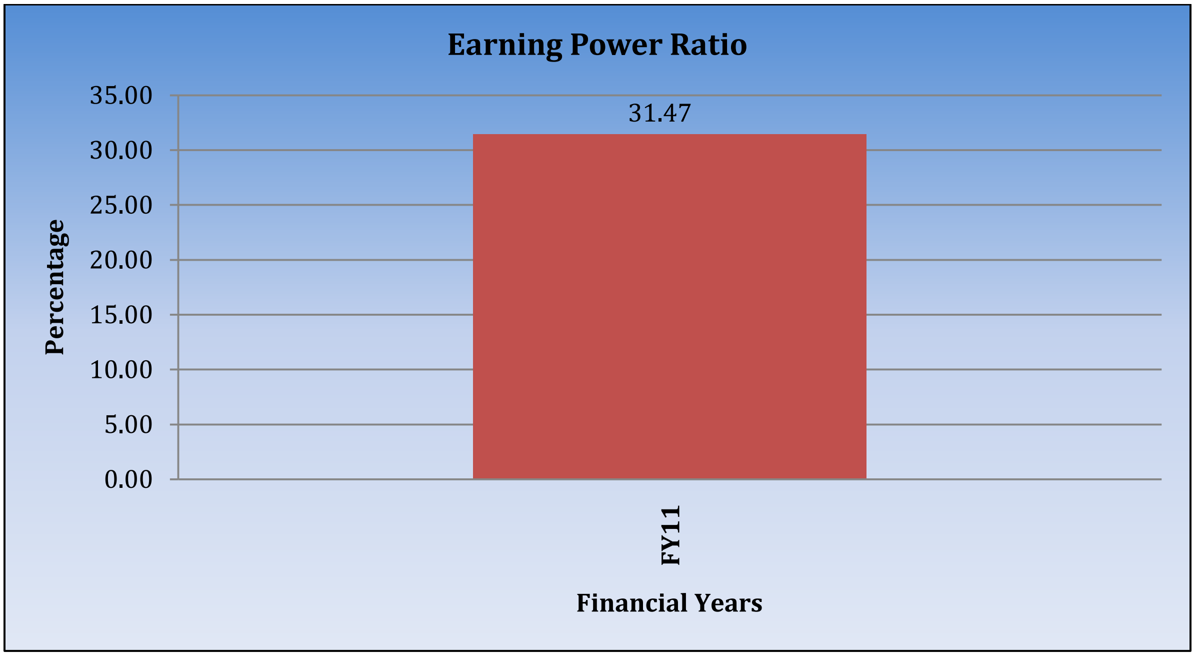
Return on Owner's Fund*= (PAT/ Owner's Fund)*100*

The return on owner's fund measures the profitability of owner's fund invested in the unit. It has been satisfactory in the FYs under study.

It has decreased in the FY11 as there is a decrease in net profit and increase in owner's fund. While the net profit has decreased by 4.92%; the owner's fund has increased by 18.19%.

Recommendation: The return on owner's fund of the unit has been satisfactory in the FYs under study. It needs to maintain this ratio in the coming FYs, as it will create a strong financial position in the market.

(3) Earning Power Ratio



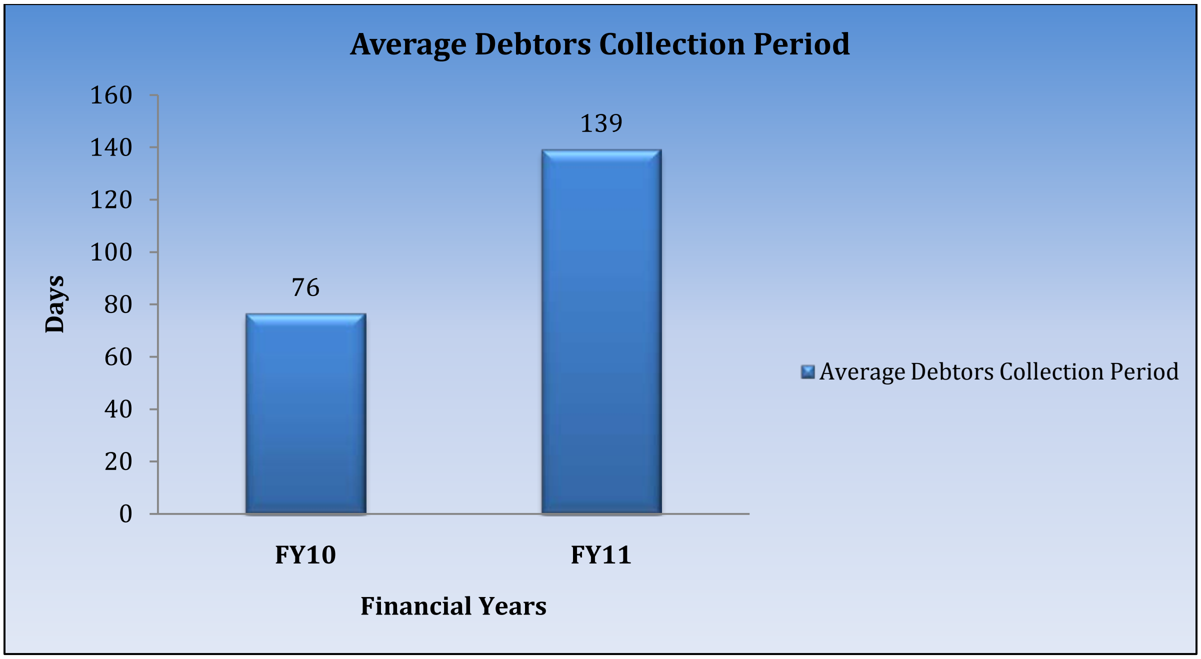
Earning Power Ratio *= (Earnings before Interest and Taxes/Average Total Assets)*100*

The earning power ratio is a measure of the operating performance of the business. The ratio highlights the profitability of the assets employed in the business. The earning power ratio has been satisfactory in the FY11.

Recommendation: The earning power ratio of the unit has been satisfactory in the FY11. It needs to maintain this ratio in the coming FYs.

4.5. Turnover Ratio

Average Debtors Collection Period



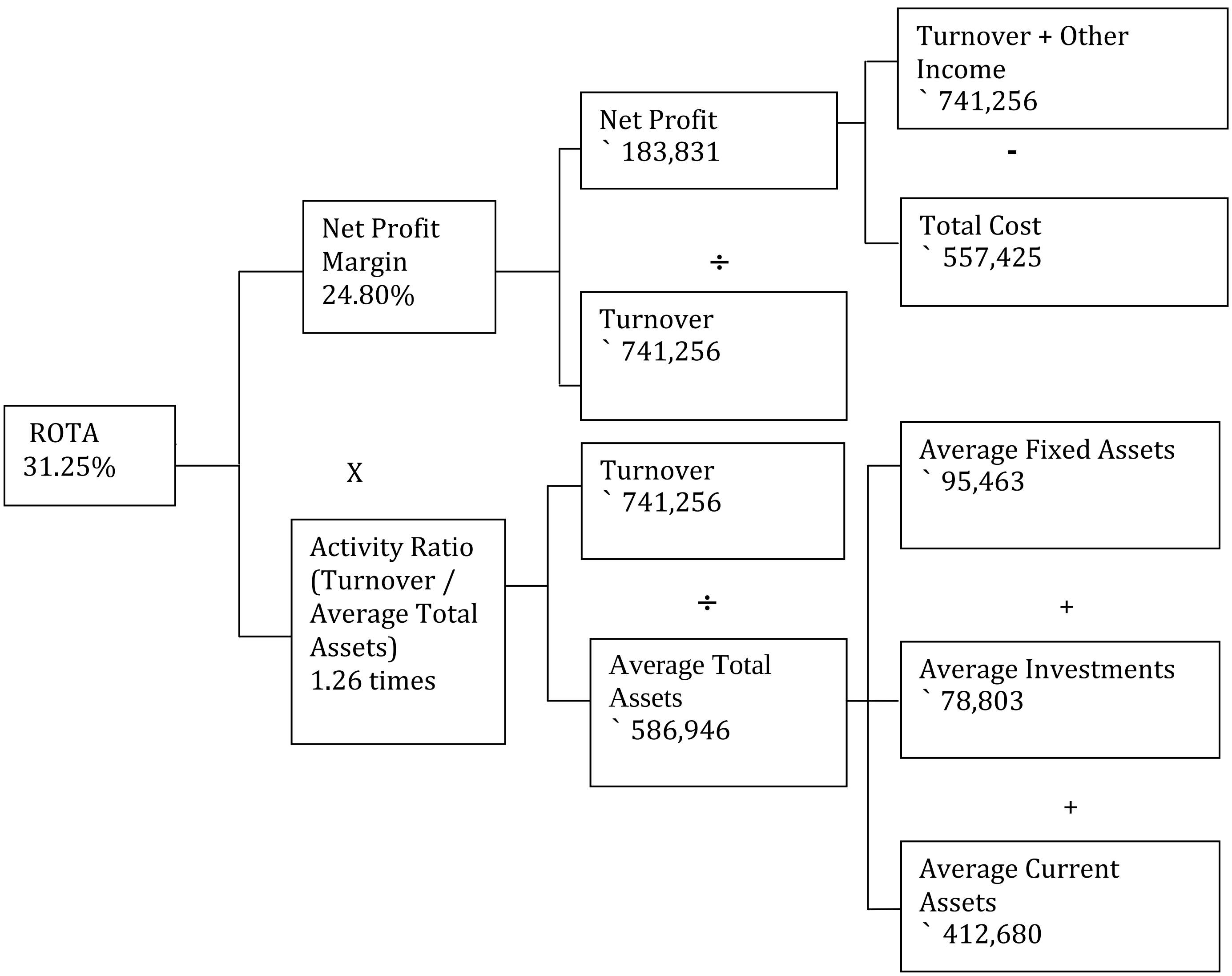
***Average Debtors Collection Period** = 365days / (Turnover/Average Debtors)*

The average debtors collection period of the unit has been moderate in the FY10 & high in the FY11.

Recommendation: The unit needs to reduce its high average debtors collection period for better working capital management.

4.6. DuPont Analysis

The DuPont analysis is a useful system of financial analysis, which considers an important matrix of the inter-relationships based on information in financial statements. It involves the calculation of return on total assets, which is a measure of the unit's ability to utilize the total assets employed in the business in an efficient manner. The following DuPont analysis is based on the data of the FY11:



In the FY11, the return on total assets has been 31.25%, which is satisfactory. ROTA in turn comprises net profit margin and the activity ratio (turnover / average total assets). By examining the break-up of ROTA, the unit can further improve its ROTA not only by increasing the turnover but also by improving the efficiency of assets employed in the business.

5.0 SUMMARY OF THE FINANCIAL ANALYSIS

- The unit has no current liabilities in the FY11.
- It is a debt free unit.
- The turnover of the unit has increased by 9.86% in the FY11.
- The net profit margin has been satisfactory at 24.80% in the FY11.
- The return on capital employed & return on owner's fund have been satisfactory at 29.05% & 28.91% respectively in the FY11.

5.1 Conclusion & Recommendations

Overall, the financial position of the unit has been satisfactory. The turnover & the net worth of the unit have increased in the FY11. The net profit of the unit has decreased in the FY11. The net profitability of the unit has satisfactory in the FY11. It can be further increased by reducing its high proportion of operating expenses.

6.0 KEY INDICATORS

Performance Drivers

- Growth in turnover & net worth in the FY11
- Satisfactory net profit margin in the FY11
- Satisfactory earning power ratio in the FY11
- Satisfactory return on capital employed & owner's fund in the FY11
- Support from associate concern

Potential Issues

- High proportion of operating expenses in the FY11
- Decrease in net profit in the FY11
- High average debtor's collection period in the FY11
- Competition from other market players

7.0 ANNEXURES

7.1 Annexure – I: Documents Referred

Following documents have been received and referred:

Sr. No.	Documents
1.	Copy of the SSI certificate
2.	Copies of unaudited financials & certified financials of M/s SNEHA TECHNO ENGINEERING for the FY10 & FY11 respectively.

Note: The rating has been assigned based on the information provided by the client and information available in the public domain.

For any queries, please feel free to contact us at **ratingdesk@onicra.com**

7.2. Annexure – II: Photographs of the Site

DISCLAIMER

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