

March 11, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	3.00	SMERA B+/Stable (Assigned)
Letter of Credit	20.00*	SMERA A4 (Assigned)

**Includes Buyer's Credit as a sublimit to the extent of Rs.20.00 crore*

**Fully interchangeable with Bank Guarantee*

SMERA has assigned a long-term rating of '**SMERA B+**' (**read as SMERA single B plus**) and a short-term rating of '**SMERA A4**' (**read as SMERA A four**) to the abovementioned bank facilities of Bagadia Brothers (BB). The outlook is '**Stable**'. The ratings are supported by the firm's experienced management, healthy revenue growth and moderate financial risk profile. However, the ratings are constrained by the firm's exposure to intense competition in the iron and steel industry. The ratings are also constrained by the firm's weak profitability. The ratings note that the firm's profit margins are susceptible to fluctuations in forex rates.

BB, established in 1980, is a Bengaluru-based partnership firm engaged in trading of iron and steel products. BB benefits from its experienced management. The partners of the firm have around four decades of experience in the iron and steel industry. BB has registered healthy revenue growth over the past three years. The firm's revenue increased from Rs.25.57 crore in FY2011-12 to Rs.66.90 crore in FY2013-14. BB registered revenue of Rs.52.00 crore (provisional) during April 2014 to February 2015. The firm has outstanding orders of ~Rs.10.00 crore as on February 26, 2015.

BB's moderate financial risk profile is reflected in low gearing (debt-to-capital ratio) of 0.53 times as on March 31, 2014 and comfortable interest coverage ratio of 1.96 times in FY2013-14. The firm's total debt of Rs.4.35 crore (as on March 31, 2014) mainly comprises short-term working capital facilities. BB's total outside liabilities to tangible net worth (TOL/TNW) ratio is moderate at 3.00 times as on March 31, 2014. The firm has advanced interest-bearing loans of Rs.9.42 crore (~1.14 times of net worth) to its partners. The partners have invested the loan amount in fixed deposits which are given as margin money for the firm's non-fund based bank facilities.

BB faces intense competition from several players in the iron and steel industry. The firm operates on low profit margins given the trading nature of its business. BB's profit margins are susceptible to forex fluctuations risk inherent in unhedged import purchases, which account for ~75 per cent of the total purchases. The firm's operating profit margin declined from 3.16 per cent in FY2011-12 to 1.75 per cent in FY2013-14 on account of forex loss. BB's net profit of Rs.0.82 crore (in FY2013-14) is largely supported by non-operating income (interest on loans) of Rs.0.61 crore.

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Outlook: Stable

SMERA believes BB will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and cash accruals while achieving comfortable working capital management and strong capital structure. The outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues, profit margins and net cash accruals, or in case of deterioration in the firm's working capital management and financial risk profile.

About the firm

BB, established in 1980, is a Bengaluru-based partnership firm promoted by Mr. Suresh Bagadia and Mr. Sunil Mehta. BB is engaged in trading of iron and steel products. The firm has a branch office in Baroda, Gujarat.

For FY2013-14, BB reported profit after tax (PAT) of Rs.0.82 crore on operating income of Rs.66.90 crore, as compared with PAT of Rs.0.22 crore on operating income of Rs.44.21 crore in FY2012-13. The firm's net worth stood at Rs.8.25 crore as on March 31, 2014, as compared with Rs.7.95 crore a year earlier.

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