

March 11, 2016

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

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

**Fully interchangeable with Bank Guarantee*

SMERA has upgraded the ratings of Bagadia Brothers (BB) to '**SMERA BB-**' (read as **SMERA double B minus**) and '**SMERA A4+**' (read as **SMERA A four plus**) from 'SMERA B+' (read as SMERA B plus) and 'SMERA A4' (read as SMERA A four) respectively. The outlook is '**Stable**'. The upgrade is in view of the improvement in margins and financial risk profile of the firm. The ratings continue to draw comfort from the firm's long track record of operations and experienced management. However, the ratings are constrained by the firm's uneven revenue trend and susceptibility of the firm's profit margins to fluctuations in forex rates.

Update

BB's revenues declined from Rs.66.90 crore in FY2013-14 to Rs.62.61 crore in FY2014-15. However, the firm's operating margins have improved to 2.28 per cent in FY2014-15 compared to 1.75 per cent in FY2013-14. BB's gearing has improved from 0.53 times as on March 31, 2014 to 0.15 times as on March 31, 2015 and total outside liabilities to tangible net worth (TOL/TNW) ratio improved from 3.00 times as on March 31, 2014 to 1.27 times as on March 31, 2015. The firm's interest coverage ratio improved to 3.00 times for FY2014-15.

Outlook: Stable

SMERA believes that BB will continue to benefit over the medium term on account of the firm's established presence in the iron & steel trading industry and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and cash accruals while maintaining the effective working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm's business risk profile weakens resulting in lesser than expected revenues or profitability and lower-than-expected net cash accruals leading to significant stretch in the firm's working capital cycle.

Rating Sensitivity Factors

- Scaling up operations while maintaining profit margins
- Efficient working capital management

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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 FY2014-15, BB reported profit after tax (PAT) of Rs.0.1.39 crore on operating income of Rs.62.61 crore, as compared with PAT of Rs.0.82 crore on operating income of Rs.66.90 crore in FY2013-14.

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