

Press Release

08 June, 2017

Bagadia Brothers

Rating Downgraded

Total Bank Facilities Rated *	Rs. 23.00 Cr.
Long Term Rating	SMERA B+/ Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has downgraded long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 23.00 crore bank facilities of Bagadia Brothers. The outlook is '**Stable**'.

Bagadia Brothers (BB), established in 1980 as a partnership firm is engaged in the trading of iron and steel products. The firm operates out of Bengaluru. The day-to-day operations are managed by Mr. Suresh Bagadia and Ms Deepika Shah.

Key Rating Drivers

Strengths

- **Experienced management and established operational track record**

The firm was established in 1980. The partners, Mr. Sunil Mehta, Mr. Suresh Bagadia and Ms Deepika Shah have more than 40 years of experience in the trading of iron and steel.

- **Average financial risk profile**

The financial risk profile is average marked by low gearing of 0.18 times as on March 31, 2016 as against 0.15 times a year earlier. Further, the TOL/TNW is average at 2.69 times as on March 31, 2016 as against 1.25 times as on March 31, 2015. The Interest coverage ratio stood at 1.76 times in FY2016 as against 3.00 times in FY2015. The tangible net worth stood at Rs.9.18 cr as on March 31, 2016 as against Rs.16.23 cr as on March 31, 2015.

Weaknesses

- **Susceptibility of margins to fluctuations in forex rates**

The profit margins are susceptible to fluctuations in foreign exchange rates since the firm imports around 51 percent of its traded goods. The firm registered forex loss of Rs.1.30 cr in FY 2015-16. The operating margin declined to 0.50 percent in FY2015-16 from 2.28 percent in FY2014-15.

- **Highly fragmented and competitive industry**

BB operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that BB will maintain a stable outlook and benefit over the medium term on account of its established presence in the 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 effective working capital cycle. Conversely the outlook may be revised to 'Negative' in case the 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 working capital cycle.

About the Rated Entity - Key Financials

For FY2015-16, BB reported Profit after Tax (PAT) of Rs.0.58 cr on operating income of Rs.59.62 cr as compared to PAT of Rs.1.39 cr on operating income of Rs.62.61 cr in FY2014-15. The net worth stood at Rs.9.18 cr as on March 31, 2016 against Rs.16.23 cr a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Mar-2016	Cash Credit	Long Term	INR 3	SMERA BB- / Stable
	Letter of Credit	Short Term	INR 20	SMERA A4+
11-Mar-2015	Cash Credit	Long Term	INR 3	SMERA B+ / Stable
	Letter of Credit	Short Term	INR 20	SMERA A4

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4

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ABOUT SMERA

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