

Press Release

Bagadia Brothers

September 18, 2018



Rating Assigned & Reaffirmed

Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+** (read as **ACUITE B Plus**) and short term rating of '**ACUITE A4** (read as **ACUITE A Four**) to the Rs. 28.75 crore bank facilities of Bagadia Brothers. The outlook is '**Stable**'.

Acuité has assigned the long-term rating of '**ACUITE B+** (read as **ACUITE B Plus**) to the Rs. 4.25 crore bank facilities of Bagadia Brothers. The outlook is '**Stable**'.

Bagadia Brothers (BB), based at Bengaluru, was established in 1980 as a partnership firm. Mr. Sunil Mehta, Mr. Suresh Bagadia and Mrs. Deepika Shah are the partners of the firm. BB is currently engaged in trading of iron and steel products. The firm is also engaged in the manufacturing of electrical transformers at its branch in Vadodara.

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 30 years of experience in trading of iron and steel.

- **Average financial risk profile**

The financial risk profile is average marked by low gearing of 0.82 times as on March 31, 2018 (Provisional) as against 0.33 times a year earlier. Further, the TOL/TNW is average at 2.62 times as on March 31, 2018 (Provisional) as against 2.23 times as on March 31, 2017. The Interest coverage ratio stood at 1.39 times in FY2018 (Provisional) as against 1.68 times in FY2017. The tangible net worth stood at Rs. 7.56 cr as on March 31, 2018 (Provisional) as against Rs.8.06 cr as on March 31, 2017.

- **Dual business operations**

The firm has started the manufacturing of electrical transformers in its facility in Vadodara in addition to the trading business of iron and steel products that it currently is into. From the revenue of Rs. 62.34 crore earned in FY2018 (Provisional), the firm made Rs. 35.00 crore from manufacturing of electrical transformers and the rest from the trading activities. However, the ability of the firm to maintain their working capital cycle along with scaling up of revenues and improvement of margins will remain a key sensitivity factor for rating in the future.

Weaknesses

- **Tender based nature of manufacturing business**

The firm has started manufacturing electricity transformers. The orders are received on tender basis. Tender based nature of business affects the firm because as the revenue of the firm depends upon the ability of the firm to convert the tenders into successful bids amidst high competition.

- **Modest scale of operations**

The firm has been in operation since 1980. The operating income of the company stood at a modest Rs. 62.74 crore in FY2018 (Provisional) compared to Rs. 42.12 crore in FY2017 and Rs. 59.62 in FY2016. Acuité believes that scaling up of operations while maintaining the company's profitability will remain a key rating sensitivity.

- **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

Acuité has considered the standalone business and financial risk profiles of Bagadia Brothers to arrive at the rating.

Outlook: Stable

Acuité believes that BB will maintain 'Stable' outlook over the medium term on the back of experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	62.34	42.12	59.62
EBITDA	Rs. Cr.	1.52	0.70	0.30
PAT	Rs. Cr.	0.16	0.42	0.58
EBITDA Margin	(%)	2.43	1.65	0.50
PAT Margin	(%)	0.26	0.99	0.97
ROCE	(%)	10.47	11.45	9.64
Total Debt/Tangible Net Worth	Times	0.82	0.33	0.18
PBDIT/Interest	Times	1.39	1.68	1.76
Total Debt/PBDIT	Times	3.99	1.93	1.14
Gross Current Assets (Days)	Days	144	218	204

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Jul-2017	Cash Credit	Long Term	INR 3	ACUITE B+ / Stable
	Secured Overdraft	Long Term	INR 10	ACUITE B+ / Stable
	Letter of Credit	Short Term	INR 20	ACUITE A4
08-Jun-2017	Cash Credit	Long Term	INR 3	ACUITE B+ / Stable
	Letter of Credit	Short Term	INR 20	ACUITE A4
11-Mar-2016	Cash Credit	Long Term	INR 3	ACUITE BB- / Stable
	Letter of Credit	Short Term	INR 20	ACUITE A4
11-Mar-2015	Cash Credit	Long Term	INR 3	ACUITE B+ / Stable
	Letter of Credit	Short Term	INR 20	ACUITE 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
Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+ / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.75	ACUITE A4 (Reaffirmed)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE B+ / Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Viren Rangparia Analyst - Rating Operations Tel: 022-67141363 viren.rangparia@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.