

S.T. Reddiar & Sons (Downgraded)

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	1.40	SMERA BB-/Stable (Downgraded from SMERA BB+/Stable)
Overdraft	1.75	SMERA BB-/Stable (Assigned)
Term Loan	10.28*	SMERA BB- Stable (Assigned)
Bill Discounting	0.05	SMERA A4 (Assigned)
Letter of Credit	0.07	SMERA A4 (Assigned)

*CAPEX Foreign letter of credit is a sub limit of Term Loan of Rs.0.74 crore.

SMERA has downgraded the long term rating of the Rs.1.40 crore bank facility of S.T. Reddiar & Sons (STRS) to '**SMERA BB-**' (**read as SMERA double B minus**) from SMERA BB+/Stable (**read as SMERA double B plus**) and assigned long term rating of '**SMERA BB-**' (**read as SMERA double B minus**) on the Rs.12.03 crore bank facilities. Further, SMERA has also assigned short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.0.12 crore bank facilities. The outlook continues to remain '**Stable**'.

The rating downgrade reflects fall in revenues and significant decline in profitability and profit margins. The firm has a weak financial risk profile marked by high gearing, working capital intensive business and stretched liquidity profile (100 per cent bank limit utilised from February 2016 to July 2016). The ratings are constrained by the firm's exposure to customer concentration risk and small-scale operations while operating in an intensely competitive segment of the printing industry. However, the ratings continue to be supported by the long track record of operations and experienced management.

The operating income has declined to Rs.7.92 crore with losses of Rs.1.27 crore in FY2015-16 (provisional). The financial risk profile is weak marked by small scale of operations of Rs.14.47 crore with net profit of Rs.0.87 crore in FY2014-15 as compared to operating income of Rs.18.66 crore with net profit of Rs.0.94 crore in FY13-14. The gearing has been moderate (debt-to-equity) of 0.57 times in FY2014-15 against 0.81 times in FY2013-14 and moderate interest coverage of 4.50 times in FY2014-15 against 4.12 times in FY2013-14.

STRS has stressed liquidity (100 per cent bank limit utilised of cash credit limit). Moreover, the firm registered PAT margin of 6.01 per cent in FY2014-15 as against 5.03 per cent in FY2013-14. The firm has subordinated unsecured loans of Rs.0.43 crore from related parties. SMERA has treated such unsecured loans as quasi-equity.

STRS is exposed to customer concentration risk arising from high dependence on orders from a single customer (50 percent revenues generated from Gideons International in FY2015). The firm has small-scale of operations marked by revenues of Rs.7.92 crore (provisional) in FY2015-16 and faces intense competition from several players in the printing industry.

Outlook- Stable

SMERA believes STRS will maintain a stable outlook over the medium term owing to its established operations and experienced management. The outlook may be revised to 'Positive' in case the firm expands its client base and scale of operations while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in profit margins or deterioration in the debt protection metrics and working capital management.

Rating Sensitivity Factors

- Improvement in revenue and profitability profile
- Improving working capital cycle

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Firm

STRS is an Ernakulam-based partnership firm established in 1886 by Mrs. R. Saradambal, Mr. R. Ramesh, Mr. R. Suresh and Mr. S. Magesh Karthik. The firm is engaged in the printing of religious books, brochures, calendars among others.

For FY2014-15, STRS reported profit after tax (PAT) of Rs.0.87 crore on operating income of Rs.14.47 crore, as compared with PAT of Rs.0.94 crore on operating income of Rs.18.66 crore in the previous year. The net worth stood at Rs.7.96 crore as on March 31, 2015, as compared with Rs.7.16 crore a year earlier. Further, the firm achieved operating income of Rs.7.92 crore (provisional) in FY2015-16.

Rating History

Date	Facilities	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
04 August, 2015	Term Loan	0.35	SMERA BB+ (Assigned)	-	Stable
	Cash Credit	1.40	SMERA BB+ (Assigned)	-	Stable
	Proposed Facilities	7.30	SMERA BB+ (Assigned)	-	Stable

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ABOUT SMERA

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