

Press Release

Subra Enterprises

July 13, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 16.00 crore bank facilities of Subra Enterprises. The outlook is '**Stable**'.

Subra Enterprises (SE) was established in 2012 by Mr. Mr. A. S. Sharath Chandran and his son, Mr. S. Shiyaam. The firm imports and trades in agricultural commodities like pulses, rice and maize. Around 40 percent of the pulses are imported from Singapore, Myanmar, Tanzania, Australia, Canada, Turkey and Syria and the balance is procured from farmers in Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra and Tamil Nadu on cash basis. The firm also plans to export cementation products such as granulated blast slag, ground granulated blast slag, fly ash and felspathatic non-metallic minerals from September 2017.

Key Rating Drivers

Strengths

- **Experienced and qualified management**

The partner, Mr. A S Sharath Chandran possesses over three decades of experience in trading while Mr. S Shiyaam has experience of around seven years in marketing. The firm has moderate operational track record of over seven years.

- **Average profitability**

The EBITDA margin improved to 5.94 percent in FY2016-17 (Provisional) compared to 4.14 percent in FY2015-16 on account of decline in employee cost and other selling overheads during the year. Further, PAT (profit after tax) margins stood at 0.52 times in FY2016-17 (Provisional) compared to 0.38 times in FY2015-16. The RoCE stood at 9.07 per cent for FY2016-17 (Provisional).

Weaknesses

- **Modest scale of operations**

The firm operates on a modest scale with operating income of Rs.26.26 crore in FY2016-17 (Provisional) compared to Rs.40.03 crore in FY2015-16. The decline in operating income is on account of demonetisation and elections during the year. During the demonetisation and election phase the firm was unable to procure raw materials on cash basis. However the revenues are expected to improve on account of introduction of new products.

- **Average financial risk profile**

The financial risk profile is average marked by net worth of Rs.9.36 crore as on 31 March, 2017 (Provisional) compared to Rs.6.13 crore in the previous year. The gearing stood at 0.97 times as on 31 March, 2017 (Provisional) compared to 1.49 times as on 31 March, 2016. The Interest coverage

ratio (ICR) stood at 1.12 times in FY2016-17 (Provisional) as against 1.13 times in FY2015-16. The total liabilities to tangible networth (TOL/TNW) stood at 0.97 times as on 31 March, 2017 (Provisional) as against 2.38 times in the previous year.

• Working capital intensive business

The operations are working capital intensive marked by GCA (Gross current asset days) of 253 days in FY2016-17 (Provisional) (PY: 187 days). This is on account of high inventory holding days of 111 days in FY2016-17. (PY: 61 days). The average cash credit utilisation for six months ended May 2017 stood at 82 percent.

• Intense market competition

The company operates in a highly competitive and fragmented agro industry which is exposed to agro-climatic risks. Besides, unfavourable changes in policies can have a bearing on profitability and revenues.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm for arriving at the rating.

Outlook: Stable

SMERA believes that SE will maintain a 'Stable' outlook in the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue along with improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or liquidity.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), SE reported net profit of Rs.0.14 crore on operating income of Rs.26.26 crore as against net profit of Rs.0.15 crore on operating income of Rs.40.03 in the previous year. The net worth stood at Rs. 9.36 crore as on March 31, 2017 (provisional) as against Rs.6.13 crore in the previous year.

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)

Not Applicable

***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	Not	9.75	SMERA B / Stable

Proposed Packing Credit	Not Applicable	Applicable	Applicable	6.25	SMERA A4
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