

## Press Release

### Shantharam Trading Corporation

May 10, 2017

#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 5.00 Cr.
<b>Long Term Rating</b>	SMERA BB- / Outlook: Stable

\* Refer Annexure for details

#### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as SMERA BB minus) on the Rs. 5.00 crore bank facilities of Shantharam Trading Corporation. The outlook is '**Stable**'.

Shantharam Trading Corporation (STC) established in 1948 is a Tamil Nadu-based partnership firm engaged in the processing and trading of spices and pulses. The partners, Mr. K Rajaram, Mr. Prathap Singh and Mr Yogesh possess extensive experience in the said line of business. The products include Coriander seeds (Dhaniya), Chilli, Black gram (Urad Dal), Green gram (Moong Dal), Green peas, Lentils (Masoor Dal). The firm caters to Reliance Retail Limited, Aditya Birla Retail Limited, Avenue Supermarts Ltd (Dmart), Future Group (Big Bazaar), the state government, APMC markets in Kerala and Tamil Nadu. The firm imports around 60 percent of its requirement of pulses from USA, Canada, Australia and other countries and the rest from local farmers. Spices are procured from local farmers in Tamil Nadu and northern India. The firm has two processing units in Tamil Nadu (Chennai and Virudhunagar) with capacity of 400 tonnes and 300 tonnes per month. The current utilisation is 80 percent.

#### Key Rating Drivers

##### Strengths

###### • Long track record of operations and experienced management

STC was established in 1948. The partners, Mr. K Rajaram, Mr. Prathap Singh and Mr Yogesh possess extensive experience in the aforementioned line of business.

###### • Average financial risk profile

The financial risk profile is average marked by net worth of Rs. 3.11 cr as on 31st March, 2017 (Provisional) compared to Rs. 2.83 cr as on 31st March, 2016. The net worth includes unsecured loan of Rs. 1.26 cr as on 31st March, 2017 (provisional) and the same is subordinated to bank debt. The debt equity ratio (gearing) stood at 1.37 times as on 31st March, 2017 (provisional) compared to gearing of 1.32 times as on 31st March, 2016. The Interest coverage ratio stood comfortable at 1.51 times in FY2016-17 (provisional). The NCA/TD stood at 0.07 times in FY2016-17 (provisional).

###### • Reputed clientele

STC is one of the leading distributors of spices and pulses to retail stores in Tamil Nadu. The firm caters to reputed clients such as Reliance Retail Limited, Aditya Birla Retail Limited, Avenue Supermarts Ltd (D Mart) to name a few.

##### Weaknesses

###### • Modes scale of operations

STC operates on a modest scale with operating income of Rs. 27.08 cr in FY2015-16 which improved from Rs. 18.67 cr in FY2014-15. The revenue rose due to increase in volume. However, the operating income fell in FY2016-17 due to decline in prices of spices and pulses. The firm achieved revenue of

Rs. 22.55 cr in FY2017 (Provisional).

**• Working capital intensive operations**

STC's operations are working capital intensive marked by high gross current assets (GCA) of 124 in FY2016-17. (PY: 106 days). This is on account of high debtor days of 67 for FY2016-17 and 89 for FY2015-16. The current ratio stood at 1.45 times in FY2016-17 (provisional). The average cash credit utilisation for six months ended March 2017 stood at 82.97 percent.

**• Profit margins are susceptible to volatility in raw material prices**

The operating margins of the firm are uneven. The raw material accounts for ~90 percent of the total cost. The operating margins improved to 3.83 percent in FY2016-17 (provisional) from 3.23 percent in FY2015-16. Further, the raw material prices depend on various factors including agro-climatic conditions and changing government policies. STC imports ~60 percent pulses from USA, Canada, Australia, Burma and Myanmar. While STC is exposed to fluctuations in forex rates, the firm hedges its risk through forward contracts. The Profit after tax (PAT) margins improved to 1.25 percent in FY2016-17 from 1.05 percent in FY2015-16.

**• Partnership constitution of the firm**

The firm is exposed to risk of capital withdrawal due to its partnership constitution. However, the same has not been observed in the past.

**Analytical Approach**

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

**Outlook: Stable**

SMERA believes that the outlook on STC will remain Stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm achieves higher than expected growth in revenue while maintaining profitability and improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue and decline in profitability or further deterioration in the financial risk profile.

**About the Rated Entity - Key Financials**

For FY2016-17 (provisional), STC reported net profit of Rs.0.28 cr on operating income of Rs. 22.55 cr compared to net profit of Rs. 0.28 cr on operating income of Rs. 27.08 cr in the previous year. The net worth stood at Rs. 3.11 cr as on March 31, 2017 compared to Rs. 2.83 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>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable

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## ABOUT SMERA

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