

Press Release

Shantharam Trading Corporation

July 27, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

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

Shantharam Trading Corporation established in 1948 is a Tamil Nadu based partnership firm engaged in processing and trading of spices and pulses. 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 Supermarkets Ltd (Dmart), Future Group (Big Bazaar), State government, APMC market in Kerala and Tamil Nadu. The firm has two processing unit in Chennai and Virudhunagar (Tamil Nadu) with a capacity of 400 tonnes and 300 tonnes per month.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

Shantharam Trading Corporation was established in 1948. The Partners, Mr. K Rajaram and Mr. Prathap Singh together possess more than four decades of experience in the same line of business. Further, Mr. Yogesh, another Partner, possesses more than a decade of experience in the same line of business.

- **Average financial risk profile**

The financial risk profile is average marked by net worth of Rs.3.33 crore as on 31 March, 2018 (Provisional) compared to Rs.3.10 crore as on 31 March, 2017. Debt-equity ratio (Gearing) stood at 1.42 times as on 31 March, 2018 (Provisional) compared to 1.40 times as on 31 March, 2017. Interest Coverage Ratio stood comfortable at 1.54 times in FY2018 (Provisional) as against 1.53 times in FY2017. NCA/TD stood at 0.07 times in FY2018 (Provisional).

Weaknesses

- **Small scale of operation**

STC operates on a moderate scale with operating income decline to Rs.18.43 crore in FY2018 (Provisional) from Rs.22.41 crore in FY2017. The revenue has dropped on account of decline in price of spices and pulses.

- **Working capital intensive operations**

STC's operations are working capital intensive in nature marked by high Gross Current Assets (GCA) of 193 days in FY2018 (Provisional) from 141 days in FY2017. This is on account of high debtors of 128 days for FY2018 (Provisional) and 93 days for FY2017. Working capital cycle days stood 138 days in FY2018 (Provisional) from 102 days in FY2017.

- **Profit margins are susceptible to volatility in raw material prices:**

The operating margins of the firm are highly depended on raw material prices. Raw material accounts for ~90 percent of the total cost. Further, raw material prices depend on various factors such as agro-climatic conditions and government intervention to balance demand and supply for ensuring optimum availability at fair prices.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Shantharam Trading Corporation to arrive at the rating.

Outlook: Stable

Acuité 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 revenues while maintaining profitability and improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenues and decline in profitability or further deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.43	22.41	27.08
EBITDA	Rs. Cr.	0.88	0.91	0.87
PAT	Rs. Cr.	0.29	0.30	0.28
EBITDA Margin	(%)	4.80	4.06	3.23
PAT Margin	(%)	1.57	1.32	1.05
ROCE	(%)	11.16	12.71	26.52
Total Debt/Tangible Net Worth	Times	1.42	1.40	1.32
PBDIT/Interest	Times	1.54	1.53	1.51
Total Debt/PBDIT	Times	5.34	4.77	4.23
Gross Current Assets (Days)	Days	193	141	105

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>
- 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.)	Rating / Outlook
10-May-2017	Overdraft	Long Term	5.00	ACUITE BB-/Stable (Assigned)

***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	ACUITE BB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Praveen Kumar Analyst - Rating Operations Tel: 022-67141148 praveen.kumar@acuiteratings.in	

About Acuité Ratings & Research:

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