

Press Release

Shantharam Trading Corporation

October 18, 2019



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 double B 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 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 Limited (Dmart), Future Group (Big Bazaar), state government, APMC market in Kerala and Tamil Nadu. The firm has two processing units in Chennai and Virudhunagar (Tamil Nadu) with a capacity of 400 tonnes and 300 tonnes per month.

Analytical Approach

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

Key Rating Drivers

Strengths

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

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

- **Moderate financial risk profile**

STC has moderate financial risk profile marked by moderate net worth, debt protection metrics and coverage indicators. The firm has moderate gearing position at 2.28 times as on 31 March, 2019 (Provisional) as against 2.80 times as on 31 March, 2018. Total debt outstanding at Rs. 5.39 crore includes working capital limits Rs. 4.52 crore and unsecured loans Rs. 0.87 crore as on 31 March, 2019 (Provisional). It has healthy debt protection metrics with interest coverage ratio and DSCR at 1.59 times for FY2019 (Provisional). It reported EBITDA margins of 4.39 per cent and PAT margins at 1.55 per cent for FY2019 (Provisional). It has healthy return indicator marked by ROCE margins at 10.19 per cent for FY2019 (Provisional).

Weaknesses

- **Moderate scale of operations**

The scale of operations is modest despite operations having commenced over five decades ago. STC reported operating income of Rs. 18.70 crore for FY2019 (Provisional) as against Rs. 18.53 crore for FY2018 and Rs. 22.41 crore for 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 207 days in FY2019 (Provisional) from 193 days in FY2018. This is on account of high debtors days of 131 days for FY2019 (Provisional) and 128 days for FY2018. The firm majorly caters to corporate clientele such as Reliance Retail Limited, Aditya Birla Retail Limited, Avenue Supermarkets Limited to name few.

- **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 to around 90 per cent 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.

Rating Sensitivities

- Significant improvement in operating income
- Elongated working capital cycle.

Material Covenants

None

Liquidity Position- Adequate

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.31 crore for FY2019 (Provisional) while its maturing debt obligations were nil for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.36 crore to Rs. 0.47 crore during 2020-22 against nil repayment obligation. The firm's working capital operations are intensive marked by gross current asset (GCA) days of 207 days for FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 0.05 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.33 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that STC will maintain a 'Stable' business risk profile on account of its established operational track record and reputed clientele. The outlook may be revised to 'Positive' in case STC is able to achieve significant growth in revenue along with improvement in profitability and significant improvement in financial risk profile. The outlook may be revised to 'Negative' in case STC reports deterioration in the working capital cycle or stretched liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	18.70	18.43	22.41
EBITDA	Rs. Cr.	0.82	0.88	0.91
PAT	Rs. Cr.	0.29	0.29	0.30
EBITDA Margin	(%)	4.39	4.80	4.06
PAT Margin	(%)	1.55	1.57	1.32
ROCE	(%)	10.19	11.16	12.71
Total Debt/Tangible Net Worth	Times	2.28	2.80	2.76
PBDIT/Interest	Times	1.59	1.54	1.53
Total Debt/PBDIT	Times	6.56	6.71	6.00
Gross Current Assets (Days)	Days	207	193	141

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.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
27-Jul-2018	Secured Overdraft	Long Term	5.00	ACUITE BB- / Stable (Reaffirmed)
10-May-2017	Secured 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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head – Corporate and Infrastructure Sector Ratings Tel: 022 49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Disha Parmar Analyst - Rating Operations Tel: 022-49294054 disha.parmar@acuite.in	

About Acuité Ratings & Research:

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