

Press Release

Shalibhadra Corporation (SC)

May 28, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 11.50 Crore
Long Term Rating	SMERA BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of **'SMERA BB+' (read as SMERA double B plus)** on the Rs.11.50 crore bank facilities of Shalibhadra Corporation. The outlook is **'Stable'**.

The Shalibhadra group (SG) was established in 1986 by the Late Shree Govindji J Khona to trade in raw cotton bales. Currently, the operations are being led by Mr. Ravindra G Khona (son) and Mr. Priyen R Khona (grandson). The group is engaged in the trading of full pressed cotton bales in Gujarat, Maharashtra and Tamil Nadu. The group comprises Shalibhadra Traders (ST) and Shalibhadra Corporation (SC) proprietorship firms established in 1986 and 1999 respectively, while Shalibhadra Cottrade Private Limited (SCPI) was incorporated in 1992. The group supplies cotton for making of yarn with count ranging from 20's to 60's (staple of 24 mm to 30 mm cotton).

Key Rating Drivers

Strengths

Established track record of operations with experienced management:

The group has been engaged in the business of trading cotton bales for the past three decades. The group is managed by Mr. Ravindra G Khona who has over two decades of experience in trading of raw cotton and Mr. Priyen Khona has been in the same line of business for over a decade.

Growth in scale of operations and profitability:

The group being in the same line of business for over three decades have developed close tie ups with its customers and suppliers. The group sells its products to states like Maharashtra, Gujarat, Tamil Nadu and Punjab. The group has registered significant growth in its operating income which has grown to Rs.295.26 crore in FY2018 (Provisional) from Rs.252.86 crore in FY2017 and Rs.208.92 crore in FY2016. The growth is mainly due to improved quality of cotton which resulted in increased orders from existing customers. The operating margins improved to 4.44 percent in FY2018 (Provisional) as against 3.66 percent in FY2017. Further, the PAT margins stood at 1.36 percent in FY2017 as against 1.19 times FY2016.

Moderate financial risk profile

SG's financial risk profile is supported by moderate networth of Rs.23.96 crore as on 31 March, 2017 as against Rs.17.79 crore in the previous year. The gearing stood at 1.19 times as on 31 March, 2017 as against 2.31 times in previous year. The total debt of Rs. 45.76 crore as on 31 March 2017 comprises of working capital borrowings of Rs.33.41 crore, unsecured loans from financial institutions of Rs.4.66 crore and term loan of Rs.7.69 crore. The coverage indicators are moderate with interest coverage ratio of 1.73 times in FY2017 as against 1.62 times in FY2016. DSCR stood at 1.58 times in FY2017 as against 1.47 times in FY2016.

Weaknesses

Moderate liquidity profile:

SG has managed its working capital moderately as reflected in Gross Current Assets of 94 days in FY2017 as against 96 days in FY2016. This is mainly on account of debtors of 92 days and 94 days in FY2017 and FY2016 respectively. The company does not stock its inventory the same stood nil as on 31 March 2017 and 31 March 2016. Further, the working capital facilities have been fully utilised in the six months ended 30 April 2018.

Operations are susceptible to fluctuations in agro commodity prices:

SG's margins are highly susceptible to changes in cotton prices. Price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the operating performance of the group.

Analytical Approach

SMERA has consolidated the financial and business profiles of Shalibhadra Traders (ST), Shalibhadra Corporation (SC) and Shalibhadra Cottrade Private Limited (SCPL) together referred to as the Shalibhadra Group. The consolidation is in view of the common ownership, similarity in the lines of business and operational linkages within the group.

Outlook- Stable

SMERA believes that SC will continue to maintain a 'Stable' outlook over the medium term on the back of established presence of the group in the cotton industry and experienced promoters. The outlook may be revised to 'Positive' in case the company reports substantial growth in revenues and profitability while maintaining its liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of decline in company's revenues or profitability or significant elongation in working capital cycle or stretched liquidity position.

Status of non-cooperation with previous CRA: Not Applicable

Any other information- Not Applicable

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	252.86	208.99	147.88
EBITDA	Rs. Cr.	9.24	7.65	5.65
PAT	Rs. Cr.	3.45	2.48	1.96
EBITDA Margin	(%)	3.66	3.66	3.82
PAT Margin	(%)	1.36	1.19	1.32
ROCE	(%)	14.16	15.16	15.89
Total Debt/Tangible Net Worth	Times	1.91	2.31	1.70
PBDIT/Interest	Times	1.73	1.62	1.67
Total Debt/PBDIT	Times	4.89	5.34	4.41
Gross Current Assets (Days)	Days	94	96	109

Applicable Criteria

- Trading Entities- <https://www.smera.in/criteria-trading.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
25-Mar-2017	Cash Credit	Long Term	10.00	SMERA BB+ /Stable (Assigned)

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.50 (Enhanced from Rs. 10.00 crore)	SMERA BB+ / Stable (Reaffirmed)

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ABOUT SMERA

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