

Press Release

Raja Enterprises

April 12, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 16.90 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 minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 16.90 crore bank facilities of Raja Enterprises. The outlook is '**Stable**'.

Raja Enterprises (RE) a partnership firm, established in 1983 is a distributor of ITC products in Trichy District, Tamil Nadu. The operations are managed by Mr. Gnanaraj and his two sons. The product line includes cigarettes (Classic, Gold Flake, Navy Cut) and food products (Aashirvaad Atta, Sunfeast Biscuits, BINGO).

Key Rating Drivers

Strengths

- **Extensive industry experience**

The promoter L. Gnanaraj and his two sons, Mr G Rajkumar Arokiaraj and Mr G. Ranson Thomas Arokiaraj have been managing the business for more than four decades. The firm caters to over 3000 customers spread across Trichy out of which almost ~1000 are wholesalers. The firm has more than 300 salesmen spread across Trichy .

- **Healthy operating margins**

The operating margins have improved to 4.47 percent in FY2015-16 compared to 1.49 percent in FY2014-15. This was on account better margins from non-cigarette items. The RoCE stood at 10.97 percent as on March 31, 2016. Further, the PAT margin improved to 0.54 percent in FY2015-16 compared to 0.14 percent in FY2014-15. This was on account of non-operating income (Vehicle hire charges) of Rs. 0.55 cr.

Weaknesses

- **Decline in revenue**

The revenue declined to Rs. 48.73 cr in FY2015-16 from Rs. 172.72 cr in FY2014-16. Due to the hike in VAT for cigarettes in Tamil Nadu, the firm stopped trading in cigarettes. The firm generated 80 percent revenue from trading in cigarettes.

- **Average financial risk profile**

The financial risk profile continues to be average marked by net worth of Rs. 6.78 cr and gearing of 2.58 times as on March 31, 2016 compared to net worth of Rs. 6.62 cr and gearing of 2.65 times as on March 31, 2015. The Interest coverage ratio stood at 1.16 times in FY2016.

- **Working capital intensive operations**

The operations are working capital intensive marked by Gross current assets of 174 days. This is on

account of stretched debtor of 97 days. The working capital is stretched to 168 days as on March 31, 2016. Further, the six months average cash credit utilisation ended February 2017 stood at 99.95 percent.

- **Highly competitive and fragmented industry**

The firm operates in a highly competitive and fragmented industry.

Analytical Approach

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

Outlook: Stable

SMERA believes that RE will continue to maintain a stable outlook over the medium term owing to its promoters extensive industry experience. The outlook may be revised to 'Positive' if the firm generates substantial and sustainable revenue or operating margins resulting in improvement in its existing business risk profile. Conversely, the outlook may be revised to 'Negative' if the working capital cycle elongates thereby resulting in stretch in its liquidity position or if it undertakes significant debt funded capital expenditure.

About the Rated Entity - Key Financials

For FY2015-16, RE has reported profit after tax (PAT) of Rs. 0.26 cr on operating income of Rs. 48.73 cr as against PAT of Rs. 0.25 cr on operating income of Rs.172.72 cr 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 Applicable	Not Applicable	16.00	SMERA B- / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.90	SMERA A4

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190	Varsha Bist Sr. Executive Tel: 022-67141160

vinayak.nayak@smera.in

Sudarson Swami

Rating Analyst

Tel: 022-67141179

sudarson.swami@smera.invarsha.bist@smera.in

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