

Press Release



Ajay Trading Company

September 15, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 31.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (**read as SMERA BB**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 31.00 crore bank facilities of Ajay Trading Company. The outlook is '**Stable**'.

Ajay Trading Company (ATC) was established in 1974 as a partnership firm by Mr A.S. Jain, Late Mr. B. P. Jain and Mr. Ajay Jain. The firm is engaged in the coal business and caters to coal traders as also cement and paper manufacturers.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management:

The firm was established in 1974. The day-to-day operations are led by Mr. Ajay Jain and family members, Mr. Ashwini Jain and Mr. Mayank Jain. The promoters have more than four decades of experience in the said line of business and have established long term relations with customers and suppliers.

• Average financial riskprofile:

The financial risk profile is average marked by moderate net worth, low gearing, and moderate debt protection metrics. The gearing stood low at 1.05 times and 1.34 times in FY2017 and FY2016 respectively and 0.83 times in FY2015. The deterioration in gearing is mainly on account of increase in the long term unsecured loans. The net worth increased to a modest Rs.5.95 crore in FY2017 compared to Rs.5.25 crore in FY2016 due to accreditation of profits to reserves. The interest coverage ratio stood moderate at 1.59 times in FY2017 compared to 2.39 times in FY2016 .This is mainly due to increase in interest cost. The NCA/TD of the company stood at 0.06 times in FY2017.

• Modest scale ofoperations

The scale of operations has been modest. The revenues increased significantly in FY2017 by 24.06 per cent to Rs.98.29 crore as against Rs.79.23 crore in FY2016. This is owing to the improvement in the coal market in north east and Uttar Pradesh. The firm registered revenue of Rs.31 crore in Q1 FY2018. The firm has orders of around 12.5 crore in hand to be executed in the next two months.

Weaknesses

• Working capital intensiveoperations:

The working capital management of the company is marked by GCA days of 96 in FY2017 and 93 in FY2016 compared to 180 days in FY2015. This is mainly on account of debtor days of 66 and 68 in FY2017 and FY2016 respectively. The firm allows 45-60 days credit to its customers. The creditor days stood low at four days and nine days in FY2017 and FY2016 respectively.

- **Low margins:**

The margins have been thin due to the trading nature of business. The operating margin increased marginally to 2.62 per cent in FY2017 compared to 2.06 per cent in FY2016. The PAT margin also stood low at 0.70 per cent in FY2017 and 0.93 per cent in FY2016 on account of increase in interest costs.

- **Highly competitive and fragmented coal industry:**

The firm is exposed to intense competition in the coal industry characterised by the presence of a large number of organised and unorganised players.

Analytical Approach

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

Outlook: Stable

SMERA believes that ATC will maintain a stable outlook and continue to benefit over the medium term from its established presence in the industry and experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues while improving margins along with working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or if the working capital cycle elongates.

About the Rated Entity - Key Financials

For FY2016-17, ATC reported profit after tax (PAT) of Rs.0.69 crore on total operating income of Rs.98.29 crore, compared to PAT of Rs.0.73 crore on total operating income of Rs.79.23 crore in FY2015-16.

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jun-2016	Cash Credit	Long Term	INR 5	SMERA BB / Stable
	Proposed Cash Credit	Long Term	INR 1	SMERA BB / Stable
	Bank Guarantee	Short Term	INR 25	SMERA A4+
02-Apr-2015	Cash Credit	Long Term	INR 4	SMERA BB / Stable
	Proposed Cash Credit	Long	INR 2	SMERA BB / Stable

	Term		
Proposed Bank Guarantee	Short Term	INR 5	SMERA A4+
Bank Guarantee	Short Term	INR 20	SMERA A4+

*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	7.30	SMERA BB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	3.70	SMERA A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+

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