

Press Release

Sree Balasubramaniam & Co

13 September, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	SMERA B+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (read as SMERA B plus) to the Rs. 10.00 crore bank facility of Sree Balasubramaniam & Co. The outlook is 'Stable'.

Analytical Approach: SMERA has consolidated the business and financial risk profiles of Sree Balasubramaniam & Co., Sree Bhuvaneswari & Co. and G. R. Krishnaiah Chetty together referred to as the 'GRK Group' owing to the similarities in the lines of business, common ownership and operational synergies.

The GRK Group was promoted by Mr. A. Dasaradaiah, Mr. G. K. Balaji and Mrs. G. B Lavanya. The group is engaged in the trading of pulses and dal (black gram, Bengal gram, Urad Dal etc). The promoters have been in this line of business for more than four decades. The GRK Group imports pulses and dal (Black gram, Toor dal, moong dal, Yellow dal, etc.) from Burma, Myanmar, Bangkok and Thailand. The firm also sources the same from Andhra Pradesh. The group supplies its products across India.

Sree Balasubramaniam & Co. is a Chennai based proprietorship concern established in 1964 by Mrs. G B Lavanya. The firm trades in pulses and dal such as Black gram, urad dal among others.

List of Key Rating Drivers and their detailed description

Strengths

Extensive experience of promoters and established track record:

The GRK group is engaged in the trading of pulses since 1961. The promoters, Mr. A. Dasaradaiah, Mr. G. K. Balaji and Mrs. G. B. Lavanya possess extensive experience in the trading of pulses.

Moderate scale of operations:

The revenues have been uneven in the past two years. The group registered healthy growth of around 72 percent in operating income at Rs.363.68 crore in FY2016 compared to Rs.211.55 crore in FY2015. However, the same declined to Rs.195.91 crore in FY2017 (Provisional).

Moderate financial risk profile:

The financial risk profile of the GRK group has been moderate. The gearing improved to 1.73 times as on 31 March, 2017 (Provisional) compared to 6.09 times as on 31 March, 2016. The tangible networth stood low at Rs.5.68 crore against total debt of Rs.9.84 crore as on 31 March 2017. However, the total debt of Rs.9.84 crore majorly comprises working capital limit of Rs.9.47 crore. The interest coverage ratio improved to 3.55 times in FY2017 (provisional) from 1.77 times in FY2016. The NCA/TD stood at 0.19 times in FY2017 as against 0.08 times in FY2016.

Comfortable liquidity:

The working capital operations are comfortable as reflected in its gross current assets of 79 days for FY2016-17 (Provisional) (68 days in FY2015-16). The average utilisation of working capital limits stood at 60 - 70 per cent for the past six months ended June 2017. The current ratio stands at 1.11 times as on 31 March 2017. The group generated net cash accruals of Rs.1.87 crore in FY2016-17 in the absence of long term debt repayment obligations.

Weaknesses
Low profitability:

The GRK group's profit margins have been low during the period under study due to the trading nature of business. The EBITDA margin stood at 1.00 percent for FY2017 (Provisional) as against 1.23 percent in FY2016. The net profit margins improved marginally to 0.94 percent in FY2017 (Provisional) from 0.55 percent in FY2016. The group's RoCE declined to 11.02 percent in FY2017 (Provisional) from 21.53 percent in FY2016.

Intense market competition:

The group operates in a highly competitive industry with large number of players in the unorganised sector. The major raw material procured by the group is pulses, which accounts for around 99 percent of the total cost. The availability of raw material largely depends on factors like area under cultivation, monsoon and crop yield. Hence, adverse movements in prices may impact profit margins.

Proprietorship constitution:

The firms within the GRK Group are proprietorship concerns and thus are exposed to the inherent risk of capital withdrawal.

Outlook - Stable

SMERA believes that Sree Balasubramaniam & Co. will maintain a stable outlook and continue to benefit over the medium term from the promoters' extensive experience in the trading of pulses. The outlook may be revised to 'Positive', if the firm achieves improvement in profitability margins along with effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue and profit margins. The outlook may also be affected by a major deterioration in the financial risk profile.

About the Rated Entity - Key Financials

On consolidated basis, the GRK Group reported net profit after tax (PAT) of Rs. 1.85 crore on operating income of Rs. 195.91 crore in FY2016-17 (Provisional) compared to PAT of Rs.2.02 crore on operating income of Rs.363.68 crore in the previous year. The net worth stood at Rs.5.68 crore as on 31 March, 2017 (Provisional) compared to Rs.4.42 crore a year earlier.

Applicable Criteria

- Consolidation of companies: <https://www.smerra.in/criteria-consolidation.htm>
- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entity - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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. Crore)	Ratings/Outlook
Cash credit	N.A.	N.A.	N.A.	10.00	SMERA B+/Stable (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Vinita Ida Rodrigues Sr. Manager – Rating Operations Tel: 022-67141115 vinita.rodrigues@smera.in	

ABOUT SMERA

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