

Press Release

JADALA TRADERS

November 01, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	SMERA B- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B-**' (read as **SMERA B minus**) on the Rs. 6.00 crore bank facilities of JADALA TRADERS. The outlook is '**Stable**'.

Jadala Traders (JT), established in 2011 is a Telangana-based partnership firm established by Mr. Srinivas Jadala, Ms. Nagrani Jadala and Ms. Sunita Shanigarapu. The firm is engaged in the ginning, pressing of raw cotton and trading of cotton bales, cotton seeds, paddy, gold. The trading of cotton bales and cotton seeds account for ~80.00 percent of revenue with outsourcing of ginning and pressing of raw cotton constituting the balance 20 percent.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, Mr. Srinivas Jadala, Ms. Nagrani Jadala and Ms. Sunita Shanigarapu have more than a decade of experience in the agro sector.

- **Proximity to cotton producing region**

The firm is located in Karimnagar, Telangana - known to be one of the cotton producing belts of India ensuring timely supply of cotton.

Weaknesses

- **Small scale of operations, low profitability**

JT has small scale of operations marked by operating income of Rs.19.34 crore in FY2017 as against Rs.11.59 crore for FY2016 and Rs.20.07 crore for FY2015. JT has low profitability marked by operating margin (EBITDA) of 3.41 percent and PAT (Profit after Tax) margin of 1.06 percent for FY2017 (Provisional) as against operating margin of 3.54 percent and PAT margin of 0.07 percent for FY2016. Further, the profitability remains susceptible to volatility in cotton prices.

- **Average financial risk profile**

JT has tangible network of Rs.2.28 crore as on 31 March, 2016 as against Rs.0.22 crore as on 31 March, 2015. The gearing (Debt-to-equity) stood at 1.72 times as on 31 March, 2016 as against 17.36 times as on 31 March, 2015. The total debt mainly comprises working capital borrowings. The ICR (Interest coverage ratio) stood at 1.02 times for FY2016 against 1.04 times for FY2015. Further, SMERA believes that the financial risk profile will remain moderate on the back of low net worth base and profitability.

- **Working capital intensive operations**

JT has gross current assets (GCA) of 258 days for FY2016 as against GCA days of 109 for FY2015. This is mainly on account of debtor days of 211 and inventory days of 47 for FY2016. The working capital cycle (WCC) stood at 192 days for FY2016. Further, the utilisation of working capital borrowing stood at ~90.00 percent for August 2017. SMERA expects operations to remain working capital intensive in the medium term due to elongated debtors.

• Volatility in raw material prices

Cotton prices are regulated by the government through MSP (Minimum Support Price). Adverse movements in cotton prices further impacts profitability. The firm is exposed to a highly fragmented industry with a large number of organised and unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of JT.

Outlook: Stable

SMERA believes that JT will maintain a stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially, while also improving its operating profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability and revenue or further deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported profit after tax (PAT) of Rs.0.01 crore on operating income of Rs11.59 crore, compared with PAT of Rs.0.01 crore on operating income of Rs.20.07 crore in FY2014-15. Further, for FY2016-17 (Provisional), the firm reported operating income of Rs.19.34 crore.

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
Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B- / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Pranali Salgaonkar Analyst - Rating Operations Tel: 022-67141127 pranali.salgaonkar@smera.in	

ABOUT SMERA

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