

Press Release

Bhagwandas & Co.

18 April, 2018

Rating Assigned



Total Bank Facilities Rated *	Rs.7.50 cr
Long Term Rating	SMERA BB-/ Outlook: Stable

Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **'SMERA BB-' (read as SMERA double B minus)** to the Rs.7.50 crore bank facilities of Bhagwandas & Co. The outlook is **'Stable'**.

Incorporated in 1974, Bhagwandas & Co. is a Chennai based partnership firm managed by Mr. Muralilal Santolia and Mr. Suresh kumar Aggarwal. The firm is dealing in steel products, namely TMT steel bars, CTD bars, M.S. round channels, angles, sheets and plates etc.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

Bhagwandas & Co. was established in 1974 by Mr. Muralilal Santolia and Mr. Suresh kumar Aggarwal. The firm deals for brands like Steel Authority of India Ltd. (SAIL), Rashtriya Ispat Nigam Ltd. – Vishakkapatnam Steel Plant (VSP) And Southern Iron & Steel Co. Limited (SISCOL). The promoters have gained experience in steel industry for over last four decades.

Moderate financial risk profile

The financial risk profile of the firm is average marked by net worth of Rs.5.57 crore as on 31 March, 2017 as against Rs.4.71 crore as on 31 March, 2016. The gearing ratio stood at 1.80 times as on 31 March, 2017 as against 2.02 times as on 31 March, 2016. The Interest Coverage Ratio stood at 1.22 times for FY2017 and 1.14 times for FY2016. The DSCR stood at 1.20 times for FY2017 and 1.11 times for FY2016. The TOL/TNW stood at 2.50 times as on 31 March, 2017 as against 2.83 times as on 31 March, 2016. The NCA/TD stood at 0.03 times in FY2017 as against 0.02 times in FY2016.

Weaknesses

Stretched working capital management

The firm has stretched working capital cycle marked by Gross Current Asset of 138 days in FY2017 as against 127 days in FY2016. The stretched GCA is on account of high debtors of 117 days in FY2017 and 119 days in FY2016. Further, the firm has sanctioned cash credit facility of Rs.7.50 crore but drawing power is restricted to Rs.5.97 crore. The average cash credit utilization stood around 90 percent for the last six months ended March, 2018.

Highly fragmented and competitive industry and thin PAT margins

The Iron & Steel trading industry is highly competitive due to very low entry barriers wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers. PAT margin of the firm is thin and stands at 0.43 percent in FY 2017 as against 0.23 percent in FY2016.

Susceptibility of operations to volatility of iron & steel price

As the firm is engaged into the trading of iron and steel products, the prices are volatile in nature. Any fluctuations in the prices of Iron and steel may impact the operations of the firm.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Bhagwandas & Co. to arrive at the rating.

Outlook: Stable

SMERA believes the firm will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	48.95	50.32	63.48
EBITDA	Rs. Cr.	1.39	1.29	1.43
PAT	Rs. Cr.	0.21	0.12	0.12
EBITDA Margin	(%)	2.84	2.57	2.25
PAT Margin	(%)	0.43	0.23	0.20
ROCE	(%)	11.49	11.44	22.26
Total Debt/Tangible Net Worth	Times	1.80	2.02	1.89
PBDIT/Interest	Times	1.22	1.14	1.17
Total Debt/PBDIT	Times	5.60	5.49	5.63
Gross Current Assets (Days)	Days	138	127	90

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>
- Entity in trading Sector - <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

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
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BB- / Stable

Contacts:

Analytical	Rating Desk
<p>Suman Chowdhury, President- SMERA Bond Ratings Tel: 022-67141107 Email: suman.chowdhury@smera.in</p> <p>Disha N. Parmar, Rating Analyst Tel: 022-67141120 Email: disha.parmar@smera.in</p>	<p>Varsha Bist, Manager- Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in</p>

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.