

Press Release

Shah Brothers (SB)

02 May, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	SMERA BB-/Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 18.00 crore bank facilities of Shah Brothers (SB). The outlook is '**Stable**'.

Established in 1939, Shah Brothers is a Kolkata based partnership firm engaged in trading and export of tea. The firm has blending units in Kolkata and Coimbatore (Tamil Nadu) with capacities of 200 tons per day in each of the locations. The firm exports to countries like Russia, Europe, Taiwan, China, Indonesia, Malaysia, Middle East countries and other Asian counties.

Key Rating Drivers

Strengths

- **Experienced management**

The firm has been in operations for nearly eight decades and is now currently managed by the 3rd generation partners who themselves have experience of more than three decades. Extensive experience of the management has enabled the firm to establish healthy relationships with customers and suppliers.

- **Healthy financial risk profile**

The healthy financial risk profile of the firm is marked by healthy networth, comfortable gearing and healthy debt protection metrics. The net worth of the firm stood healthy at Rs.33.38 crore in FY2017 as compare to Rs.32.33 crore in FY2016. The gearing of the firm stood comfortable at 0.18 times in FY2017 as compared to 0.10 times in FY2016. Total debt of Rs 5.94 crore consists of Rs 5.74 crore of short term debt from bank and vehicle loan of Rs.0.21 crore. The total outside liability against tangible net worth (TOL/TNW) of the firm stood moderate at 1.86 times in FY2016 as compared to 1.65 times in previous year. The interest coverage ratio (ICR) of the firm stood comfortable at 2.29 times in FY2017 as compared to 2.07 times in FY2016. The debt service coverage ratio (DSCR) of the firm stood comfortable at 1.90 times in FY2017 as compared to 1.75 times in FY2016. The net cash accruals against the total debt stand comfortable at 0.19 times in FY2017 as compared to 0.26 times in FY2016.

Weaknesses

- **Low profitability margin**

The firm has incurred losses at the operating level in the past 3 years due to the high raw material cost and other direct cost. The operating margin of the firm stood (0.44) per cent in FY2017 as against of (1.07) per cent in the previous year. The margin stood (0.19) per cent in FY2015 as well. However, the net profit margin of the firm stood moderate at 0.70 per cent respectively for FY2017 and FY2016, which is mainly on account interest income received for the bank as against of fixed deposits.

• Working capital intensive nature of operation

The operations are working capital intensive marked by gross current asset (GCA) days of 170 in FY2017 as against 116 in FY2016. The high GCA days can be attributed to the high debtor and inventory days of 85 and 75 respectively in FY2017 as against 97 and 09 days in FY2016. The firm on an average utilises around 100 per cent of its working capital limit.

• Exposure to foreign exchange fluctuation risk

With ~ 85 per cent of total revenue comprising of exports, the firm has substantial exposure to foreign exchange fluctuation risk.

Analytical Approach

For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of SB.

Outlook: Stable

SMERA believes that SB will maintain a stable outlook and continue to benefit over the medium term from its long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue while achieving sustained improvement in profit margins and improving the working capital management. Conversely, the outlook may be revised to 'Negative' in case of failure to achieve the projected revenue leading to a fall in margins or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	132.79	99.65	114.09
EBITDA	Rs. Cr.	(0.58)	(1.06)	(0.21)
PAT	Rs. Cr.	0.93	0.70	0.65
EBITDA Margin	(%)	(0.44)	(1.07)	(0.19)
PAT Margin	(%)	0.70	0.70	0.57
ROCE	(%)	7.14	6.22	13.18
Total Debt/Tangible Net Worth	Times	0.18	0.10	0.10
PBDIT/Interest	Times	2.29	2.07	1.90
Total Debt/PBDIT	Times	2.07	1.42	1.37
Gross Current Assets (Days)	Days	170	116	129

Status of non-cooperation with previous CRA (if applicable)

NA

Any other information

NA

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	2.00	SMERA BB- /Stable
Packing Credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BB- /Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4

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ABOUT SMERA

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