

Press Release

Shah Brothers

January 25, 2021



Rating Withdrawn

Total Bank Facilities Rated*	Rs.18.00 Cr.
Long Term Rating	ACUITE B+ (Withdrawn)
Short Term Rating	ACUITE A4 (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.18.00 Cr bank facilities of Shah Brothers (SB).

The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the firm and No Objection Certificate (NOC) received from the banker.

About the Firm

Kolkata-based, SB was established as a partnership firm in 1939. The firm is promoted by Mr. Shashikant Shah, Mr. Deven Shah, Mr. Hemen Shah and Mr. Ketan Shah. The firm is engaged in trading and export of tea. Exports accounts for ~90 percent of the total sales and the firm exports to Russia, Europe, Taiwan, China, Indonesia, Malaysia, Middle East countries and other Asian counties. The firm has blending units in Kolkata and Coimbatore (Tamil Nadu) with capacities of 200 tons per day in each of the locations.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of SB to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The firm has been in operations for nearly eight decades and is now currently managed by the 3rd generation partners namely Mr. Shashikant Shah, Mr. Deven Shah, Mr. Hemen Shah and Mr. Ketan Shah who have more than three decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the firm to forge healthy relationships with customers and suppliers.

Weaknesses

- **Average financial risk profile**

SB's financial risk profile is average marked by moderate net worth, moderate gearing (debt to equity ratio), deteriorating total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Tangible net worth of the firm stood modest at Rs.37.88 Cr as on 31 March, 2020 (Provisional) against Rs.33.71 Cr as on 31 March, 2019. The gearing stood at 0.68 times as on 31 March, 2020 (Provisional) against 0.56 times as on 31 March, 2019. TOL/TNW stood at 5.04 times as on 31 March, 2020 (Provisional) against 4.71 times as on 31 March, 2019. The total debt of Rs.25.90 Cr as on 31 March, 2020 (Provisional) mainly consists of long-term debt of Rs.0.05 Cr and short-term debt of Rs.25.85 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 4.86 times and 0.17 times respectively in FY2020 (Provisional), while DSCR stood at 3.69 times in FY2020 (Provisional).

• **Working capital intensive operations**

SB's working capital operations are intensive marked by Gross Current Asset days (GCA) of 298 days in FY2020 (Provisional) against 200 days in FY2019 owing to high inventory and receivable days. The inventory days were recorded at 88 days in FY2020 (Provisional) against 24 days in FY2019. The inventory holding policy of the firm depends upon the market conditions and buyer's demand. The debtors' days were recorded at 153 days in FY2020 (Provisional) against 122 days in FY2019; majorly due to the delay in the payment from customers due to global outbreak of covid-19. However, working capital bank lines remains utilized at ~60-70 percent for last nine months ended December, 2020.

• **Fluctuating margins**

The operating margins of the firm stood at 1.83 percent in FY2020 (Provisional) against 3.67 percent in FY2019; this is majorly due to high competition and price fluctuations.

Rating Sensitivities

Not Applicable

Material Covenants

None

Liquidity: Adequate

The firm has adequate liquidity marked by healthy net cash accruals against moderate repayment obligations. The firm has generated cash accruals of Rs.4.38 Cr in FY2020 (Provisional), against moderate repayment obligations of Rs.0.02 Cr. The firm maintains unencumbered cash and bank balances of Rs.0.25 Cr as on 31 March, 2020 (Provisional). The current ratio of the firm stood at 1.15 times in the same period. Liquid investments stood at Rs.21.78 Cr as on 31 March, 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	251.47	257.96
PAT	Rs. Cr.	4.20	5.37
PAT Margin (%)	(%)	1.67	2.08
Total Debt/Tangible Net Worth	Times	0.68	0.56
PBDIT/Interest	Times	4.86	4.57

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Oct-2020	Cash Credit	Long Term	2.00	ACUITE B+ (Downgraded; Indicative)
	Packing Credit	Long Term	12.00	ACUITE B+ (Downgraded; Indicative)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Indicative)
12-Jul-2019	Cash Credit	Long Term	2.00	ACUITE BB- (Indicative)

02-May-2018	Packing Credit	Long Term	12.00	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Indicative)
	Cash Credit	Long Term	2.00	ACUITE BB-/ Stable (Assigned)
	Packing Credit	Long Term	12.00	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)

***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	1.00	ACUITE B+ (Withdrawn)
Packing Credit*	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE B+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Withdrawn)

*Post Shipment Credit, Foreign Documentary Bill Purchased (FDBP)/ Foreign Usance Documentary Bill Purchased (FUDBP) is sublimit of PC to the extent of Rs. 14 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Ashvita Ramesh Analyst - Rating Operations Tel: 022-49294065 ashvita.ramesh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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