

May 31, 2013

Facilities	Amount (Rs. Crores)	Rating
Cash Credit	7.50	SMERA B- / Stable/Assigned
Term Loan	1.00	SMERA B-/Stable/ Assigned
Letter of Credit	1.50	SMERA A4/ Assigned

SMERA has assigned a rating of '**SMERA B-**' (read as **SMERA Single B minus**) to the Rs.8.50 crores long term facilities (fund based) and '**SMERA A4**' (read as **SMERA A four**) to the Rs.1.50 crores short term facility (non-fund based) of Shubham Starch Chem Private Limited (SSCPL). The outlook is '**Stable**'. The ratings are constrained by a weak financial risk profile marked by low profitability, high leverage, low coverage indicators, stretched liquidity position and risks associated with major business transactions routed through the group entities. The ratings also factor in SSCPL's moderate scale of operations. However, the ratings derive support from the experienced management.

SSCPL manufactures modified starches and chemicals. Though the company's revenues have increased at a CAGR of 42.50 per cent over FY2008 to FY2012, the scale of operations remains moderate with FY2012 revenues at Rs.25.32 crores. Further, majority of the business transactions (both sales as well as purchases) are routed through group entities viz. Tirupati Industrial Chemicals Private Limited, Aakash International and Kartik Industries, this has resulted in SSCPL reporting low profit margins with PAT margin being consistently below 1 per cent during FY2008 to FY2012.

Low operating profit margins and rising interest burden has resulted in low coverage indicators. Though leverage remained moderate at 1.56 times as on March 31, 2012, there are concerns on the sudden rise in debt and steep increase in payables in FY2013 (provisional). This has resulted in high leverage at 2.11 times and high total liabilities to tangible net worth ratio at 6.79 times as on March 31, 2013.

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.

SSCPL's operations are working capital intensive with major funds getting blocked in inventory or receivables and limited credit availability from suppliers. Hence, the company's liquidity position is stretched with average cash credit utilization being ~90 per cent during the last five months.

Outlook: Stable

SSCPL has a 'Stable' outlook. Though SMERA believes that SSCPL will continue to benefit from the experienced management, its ability to improve profitability and maintain a comfortable liquidity position remains the key rating sensitivity.

About the Company

SSCPL was incorporated in 1995 by Mr. Anand Aggarwal and Mrs. Neeta Aggarwal. The company is engaged in manufacturing modified starches and chemicals. SSCPL has its administrative office and factory in Faridabad, Haryana. Mr. Anand Aggarwal has more than two decades of experience in the chemicals business.

For FY2012, SSCPL reported net profit of Rs.0.10 crores on total income of Rs.25.32 crores as compared with net profit of Rs.0.13 crores on a total income of Rs.23.25 crores for FY2011. Further, the company has earned revenues of Rs.41.22 crores and profit before tax of Rs.0.24 crores in FY2013 (provisional).

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.

Contact List

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP - SME – Sales Tel : +91-22-67141177 Cell : +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Mr. Umesh Nihalani, Head Corporate Ratings Tel: +91-22-67141106 Cell: +91 9833651336 Email: umesh.nihalani@smera.in	Tel: +9122-67141128 Email: ratingdesk@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.