

February 10, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit * (Inventory Funding Scheme)	6.00	SMERA B-/Stable (Assigned)
Cash Credit	0.50	SMERA B-/Stable (Assigned)

**Includes ad-hoc limit of Rs. 1.00 crore for April, September and February*

SMERA has assigned a rating of '**SMERA B-**' (**read as SMERA B minus**) to the above-mentioned bank facilities of Vijay Shree Traders (VST). The outlook is '**Stable**'. The ratings are constrained by the firm's small scale of operations and low profitability amidst intense competition prevalent in the tractor dealership business. The ratings are further constrained by the firm's weak debt protection metrics and working capital-intensive operations. However, the ratings are supported by the firm's experienced management and long-standing association with Escorts Limited.

VST is an authorized dealer of Escorts Limited since 1992. VST operates a 3S (sales, service and spares) showroom in Shujalpur, Madhya Pradesh. The firm has a small scale of operations with total operating income of Rs.16.58 crore and PAT of Rs.0.13 crore in FY2012-13 (refers to financial year, April 01 to March 31). Moreover, the firm's earnings are susceptible to the vagaries of monsoon — a key factor impacting tractor sales. VST has low profitability with net profit margin of 0.76 per cent in FY2012-13. The firm is exposed to intense competition from dealers of other tractor manufacturing companies (including Mahindra & Mahindra Ltd., New Holland, HMT, Sonalika, TAFE and John Deere).

VST has weak debt protection metrics with high leverage at 3.77 times as on March 31, 2013 and low interest coverage ratio of 1.21 times for FY2012-13. The firm's net worth is low at Rs.0.57 crore as on March 31, 2013. VST's external borrowings mainly comprise short term loans required for working capital purpose. The firm's working capital-intensive operations are supported by inventory funding limit of Rs.6.00 crore (sanctioned in September 2013).

Mr. Harshad Shah, Proprietor of VST, has more than two decades of experience in the tractor dealership business. VST caters to local farmers in the vicinity of Shujalpur, Madhya Pradesh.

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Outlook: Stable

SMERA believes that VST will continue to benefit over the medium term from its experienced management and exclusive dealership rights (of tractors manufactured by Escorts Limited) in the Shujalpur region. The outlook may be revised to 'Positive' if the firm improves its scale of operations and capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm does not achieve the projected scalability amidst intensifying competition in its area of operation or in case of deterioration in the firm's financial risk profile.

About the firm

VST, established in 1988, is a sole proprietorship concern promoted by Mr. Harshad Shah. VST is a Shujalpur-based authorized dealer of tractors manufactured by Escorts Limited. The firm operates a 3S showroom (sales-service-spares) in Shujalpur, Madhya Pradesh.

The overall operations of the firm are managed by Mr. Harshad Shah and Mr. Pankhil Shah (son of Mr. Harshad Shah).

For FY2012-13, VST reported PAT of Rs.0.13 crore on total operating income of Rs.16.58 crore as compared with PAT of Rs.0.09 crore on total operating income of Rs.14.16 crore for FY2011-12. Further, VST registered revenue of Rs.13.42 crore during April 2013 to September 2013. The firm's net worth stands at Rs.0.57 crore as on March 31, 2013, as compared with Rs.0.55 crore a year earlier.

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