



Press Release

Saraf Trexim Limited

August 03, 2020

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Short Term Bank Facilities	60.50 (enhanced from 50.50)	IVR A4+ (IVR A Four Plus)	Reaffirmed
	Total	60.50 (Rs Sixty crore and Fifty Lakh Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Saraf Trexim Limited (STL) continues to derive comfort from its experienced promoters with established track record, established relationship with reputed clientele, improvement in financial performance in FY20 (Prov.) and efficient working capital management. However, these rating strengths are continues to remain constrained by intense competition in its operating spectrum, thin profit margins and leveraged capital structure with moderate debt protection metrics. Further, Infomerics also notes deviation between its projected performance for FY19 and FY20 with actual performance as per FY19(A) and FY20 (Provisional) results.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with TOL/TNW to remain below 3x on a sustained basis

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 2x
- Deterioration in working capital management affecting the liquidity.
- More than 5% deviation in FY20 provisional results as compared to FY20 (A) results



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Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters with established track record**

The promoter director of the company Mr. Basant Kumar Saraf has more than two decades of experience in the trading of agro and steel products. The extensive experience of the promoters has helped the company in establishing comfortable relationship with its customers in the export market. Further, the company also has established a more than a decade long track record.

- **Established relationship with its clientele**

The company has long term relationship with its clients based in Bangladesh and Nepal and derive a major portion of its revenue from these countries through repeat orders. Also the company has recently included marquee clients like 'ThyssenKrupp' in its client portfolio.

- **Improvement in financial performance in FY20 (Prov.)**

The total operating income of the company witnessed a steady growth of about ~17% to ~Rs.422 crore in FY20 driven by addition of new clients in existing markets and identifying new market for export along with steady repeat orders from the existing clientele. Further, with improvement in revenue the profitability of the company has also increased and the company posted a higher EBITDA in FY20 (prov.) to 1.98% vis-à-vis 1.83% in FY19.

- **Efficient working capital management**

The working capital cycle of the company continued to remain low. It has been managing its receivables collection well (being in a range of 3 to 18 days in the last three years). Export transactions are done on 'Sight letter of credit' basis which makes the payments made as soon as all the required documents are provided to the customers' banks/financial institutions.

Key Rating Weaknesses

- **Intense competition in the operating spectrum**

STL is operating in trading segment which is highly competitive due to presence of many organised and unorganised players with limited product differentiation and capital requirements.



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- **Thin profit margins**

Owing to its less value additive trading nature of operations, the EBITDA and PAT margin remained at a low level. However, the company has been trying to increase the proportion of high margin products (like caustic soda, bleaching powder) in its sales mix to boost its profitability.

- **Leveraged capital structure with moderate debt protection metrics**

The financial risk profile of the company is marked by its leveraged capital structure with moderate debt protection metrics. The overall gearing is remained high and stood at 2.74x as on March 31, 2020, mainly on account of packing credit availed by the company to fund its trade purchases (payments for which are made in advance). However, the total indebtedness of the company remained moderate with TOL/TNW at 3.13x as on March 31,2020 (Prov.). Further, the debt profile of the company includes unsecured loan from the director (Rs.1.25 crore outstanding as on March 31,2020). Considering the same as quasi equity TOL/ANW of the company stood at 2.82x as on March 31,2020. The interest coverage remained satisfactory at 3.08x in FY20, improved from 2.20x in FY19. However, due to its low gross cash accruals attributable to its thin profit margins, Total debt to GCA remained on the higher side at 13.44x in FY20 (prov.).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

STL has earned a gross cash accrual of Rs.2.71 crore in FY19 and Rs.3.42 crore in FY20 (provisional). Further, the company is expected to earn gross cash accruals in the range of ~Rs.6-11 crore as against its minimal debt repayment obligation during FY21-23. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, the average cash credit utilisation of the company remained high at ~89% during the past 12 months ended March, 2020 indicates a moderate liquidity cushion.



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About the Company

Incorporated in 2007, Saraf Trexim Limited (STL) is a Kolkata based company engaged in trading of various commodities such as agri-commodities, spices, poultry feed, iron & steel products and chemicals. The company is a leading merchant export house with Two-star certification from the Govt. of India. The company was promoted by Mr. Basant Kumar Saraf having more than two decades of experience in the existing line of business. Their clientele includes buyers situated in countries like Bangladesh, Nepal, China, South Africa, USA, Madagascar among others.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	359.82	422.19
EBITDA	6.54	8.34
PAT	2.40	3.12*
Total Debt	50.89	45.97
Tangible Net worth	12.61 [#]	16.76 [#]
EBITDA Margin (%)	1.82	1.98
PAT Margin (%)	0.67	0.74
Overall Gearing Ratio (x)	4.04	2.74

*Classification as per Infomerics' standards; #adjusted net worth; after considering tax @25%;

Status of non-cooperation with previous CRA: INC from ACUITE as per PR dated Nov. 15, 2019 due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
3	Packing Credit	Short Term	56.00	IVR A4+	IVR A4+ (June 10, 2019)	-	-
4	Bill Discounting	Short Term	4.50	IVR A4+	IVR A4+ (June 10,	-	-



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					2019)		

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Fund Based Limits – Packing Credit	-	-	-	56.00	IVR A4+
Short Term Fund Based Limits – Bill Discounting	-	-	-	4.50	IVR A4+