Press Release

Sagar Nutriments Private Limited

April 17, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities - Term Loan	42.32	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Long Term Fund based Bank Facilities	45.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
3.	Short Term Bank Facilities – Credit exposure for Forward Contract	0.28	IVR A3 (IVR A Three)	Assigned
	Total	**87.60**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sagar Nutriments Private Limited (SNPL) draws comfort from its experienced and resourceful promoters, proximity to paddy growing area and comfortable capital structure with satisfactory debt protection metrics. The ratings also positively considers its prudent working capital management and sustained growth in scale of operations with satisfactory financial performance. However, these rating strengths are partially offset by its short track record, fragmented nature of the industry leading to thin profit margins and vulnerability to changes in Government policies. The ratings also considers exposure to agro-climatic risk and uncertain demand – supply situation in recent global economic backdrop. Further, the rating also notes expected moderation in its capital structure and debt protection metrics.

Key Rating Sensitivities:

Upward Factor:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis, which is significantly higher than Infomerics expectations.

- Improvement in the capital structure and debt protection metrics with TOL/TNW to be maintained below 2x and interest coverage to remain above 3x
- Effective working capital management with improvement in operating cycle and liquidity position

Downward factor:

- Dip in operating income and/or profitability impacting the debt coverage indicators
- Deterioration in the capital structure with overall gearing moderated to more than 1.8x and interest coverage deteriorated below 2x
- Elongation in the operating cycle impacting the liquidity and average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced and resourceful promoters

The promoters have vast business experience in multiple sectors like real estate, textile, agro commodities etc. The company is a part of the "Sagar Group" of Madhya Pradesh who is in existence for last 31 years in multiple sectors like real estate, education and cotton yarn. Vast business experience of the promoters helped the company to grow faster even within a short span of its operation. Infomerics believes being a part of the 'Sagar group' guided by experienced promoters, the company will continue to receive synergy benefits.

Proximity to paddy growing areas

The primary raw material, paddy, is available in abundant quantity in Madhya Pradesh throughout the year. The presence in paddy growing area gives a competitive advantage in terms of easy availability of paddy, lower freight, and favourable pricing terms.

Sustained growth in scale of operations with stable financial performance

SNPL has grown its revenues at a CAGR of ~70% over FY17-FY19 with a y-o-y growth of ~42% in FY19.The increase in revenues was mainly aided by increase capacity utilisation and stream lining the process which leads to higher sales volumes. Further, with growth in operations, profitability and cash accruals have remained satisfactory during the aforesaid period. During 9MFY20, the company has achieved a revenue of ~Rs.112 crore. Infomerics expects the operating profitability of the company may increase with addition of 2MW captive power plant and higher absorption of fixed overheads driven by increase in capacity going forward.

Comfortable capital structure with comfortable debt protection metrics though moderation expected in near term

The capital structure of the company remained comfortable as on the past three account closing dates. The overall gearing ratio improved gradually from 1.87x as on March 31, 2017 to 0.82x as on March 31, 2019 driven by scheduled repayment of term loans and steady accretion of profit to net worth. Total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 1.36x as on March 31, 2019. With improvement in absolute EBITDA and cash accruals in FY19, Interest coverage ratio and Total debt/GCA improved from 2.21x and 10.60x respectively in FY18 to 3.36x and 3.86x respectively in FY19. However, the capital structure is expected to deteriorate in the near term due to recently concluded debt funded capex for enhancement in the facility. The company has availed a term loan of Rs.31 crore for funding the capacity enhancement capex as against total envisaged cost of Rs.47.05 crore. However, the promoters also brought in Rs.11 crore as equity and balance was funded by internal accruals. With incremental debt in the capital structure, the leverage ratios are expected to be moderated in the near term though Infomerics expects debt protection metrics will continue to remain satisfactory despite impairment.

Prudent working capital management

SNPL has a satisfactory operating cycle of 58 days in FY19. The company managed its receivables cycle well which is reflected in the average debtor days of around a month in FY19. The company processes Pusa 1121 varieties of basmati rice, which is easily available in Bhopal region across year hence it follows an order-backed strategy for inventory. The average utilisation of SNPL remained comfortable at ~16% during the past 12 months ended in January 2020.

Key Rating Weaknesses

Short track record of operation

SNPL began operations in August 2016 and has less than four years of experience in the rice milling business.

Exposure to agro-climatic risk

Cultivation of paddy, the primary raw material depends on monsoon and availability of irrigation. Further, price of paddy is highly volatile and influenced by climatic conditions. SNPL is susceptible to any shortage or price fluctuation during unfavourable climatic conditions and hence the raw material needs to be adequately stocked for the processing during non-season period.

Fragmented nature of the industry leading to thin profit margins

The rice-milling industry is characterised by intense competition due to limited value addition, and consequent low entry barriers, limiting the pricing flexibility of players like SNPL. As a result, the profit margins remained thin with operating margin of 5.49% and net margin of 1.95% in FY19.

Vulnerability to changes in Government policies

The rice industry is regulated in terms of paddy prices, export/import of rice, and the release mechanism. Thus, the company remains exposed to changes in Government policies in relation to stipulation of MSP for procurement of paddy from farmers and revision of policies on export, etc.

Uncertain demand-supply situation in recent global economic backdrop

Indian basmati exports are facing headwinds in the current fiscal (FY20) and in next fiscal (FY21), after two years of strong growth due to uncertainty over level of exports to Iran. Iran and Saudi Arabia are the key markets for the Basmati rice (accounting for 50-55 per cent of Basmati rice exports from India). Going forward, any considerable decline in level of imports by these countries (in light of on-going trade sanctions on Iran, proposed changes in import policies in Saudi Arabia and COVID-19 effects) can have a depressing impact on basmati rice prices and exert pressure on profitability of the industry participants like SNPL.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The company is expected to have adequate liquidity marked by its adequate gross cash accruals as compared to its debt repayment obligations during FY20-22. Further, the company has adequate liquidity buffer as indicated by low average utilisations in its bank limits at~16% in the past 12 months ended in January, 2020.

About the Company

Incorporated in 2015, Sagar Nutriments Private Limited (SNPL) was promoted by two business families, Agarwal family and Mittal Family. The company started its commercial operations from November 2016 and is engaged in the milling of paddy to produce raw rice with an installed milling capacity of 10MT. The company operates in Basmati Rice segment and mainly produce Pusa Basmati, Pusa Basmati 1121. The rice mill of the company is located in Raisen, Madhya Pradesh. The company sales its produce mainly to exporters. Besides, it also develop its own brand " Sagar Rice" which comprise around 10-15% of its total revenue. The company recently concluded a capex to enhance its capacity to 20 TPH and to install a rice husk based Captive Power plant of 2MW. The additional capacity is set up adjacent to the existing unit and is expected to start commercial production from Q1 2021 onwards.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	112.96	160.62
EBITDA	6.51	8.82
PAT	1.50	3.14

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Debt	32.83	21.29
Tangible Net worth	22.99	25.97
EBITDA Margin (%)	5.76	5.49
PAT Margin (%)	1.33	1.95
Overall Gearing Ratio (x)	1.43	0.82

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

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
1.	Term Loan	Long Term	42.32	IVR BBB-/Stable			
2.	Cash Credit	Long Term	35.00	IVR BBB-/Stable	-	-	-
3.	Proposed Working Capital	Long Term	10.00	IVR BBB-/Stable	-	-	-
4.	Credit exposure for Forward Contract	Short Term	0.28	IVR A3			

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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Bank Facilities –Term Loan**	-	-	April ,2027	42.32	IVR BBB- /Stable
Bank Facilities – Cash Credit	-	-	-	35.00	IVR BBB- /Stable
Proposed Working Capital	-	-	-	10.00	IVR BBB- /Stable
Short Term Bank Facilities–Credit exposure for Forward Contract*	-	-	-	0.28	IVR A3

**sublimit Rs 0.08 Cr forward booking against confirmed export sales and Rs 0.20 Cr of forward booking for FLC limit. **sublimit of FLC of Rs.4 Cr and sublimit of ILC. of Rs 16 Cr.*