



Press Release

Sara International Private Limited

May 19, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term/Short Term- Bank Facilities	58.00	IVR BBB-/ Stable Outlook/ IVR A3(IVR Triple B Minus with Stable Outlook/IVR A Three).	Upgraded from IVR BB+ / Stable Outlook /IVR A4+ (IVR Double B Plus with Stable Outlook /IVR A Four Plus).
Short Term - Bank Facilities	32.00	IVR A3 (IVR A Three)	Upgraded from IVR A4+ (IVR A Four Plus)
Total	90.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating upgrade reflects healthy operating margins resulted into improvement into debt and interest coverage, moderately favourable capital structure, availability of substantial liquid assets to meet unforeseen demands and diversifying its business portfolio by entering into new business line of supply of Container in fiscal 2020. The ratings also reflect the extensive experience of its promoters and established track record of operation. These strengths are partially offset by low profitability margins in a competitive and fragmented industry, moderate customer and supplier concentration risk.

Key Rating Sensitivities

Upward Factors:

- Significant improvement in scale and profitability on sustained basis.
- Improvement in working capital management

Downward Factors:

- Decrease in operating profit margins to a level of 5% or below.
- Weakening of financial risk profile on account of large working capital requirement owing to large inventory requirements or significant debt-funded capital expenditure

Detailed Description of Key Rating Drivers



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Key Rating Strengths:

Experienced promoters

SIPL's management rests in the hands of Mr. Devinder Pal Singh, who has been associated with the company for over 25 years. He holds a post graduate degree in Economics from Punjab University along with a Diploma from the Indian Institute of Foreign Trade, New Delhi. He is assisted by a team of well qualified and experienced professionals in handling the day to day operations of the business.

Above average financial risk profile

Tangible net worth of the company remains moderate at Rs.105.37 Cr coupled with marginal decline in total debt to Rs.120.59 Cr, resulting into moderate level of gearing at 1.14 times as on March 31, 2019. Furthermore, total indebtednesses as reflected by TOL/TNW further improved to 1.40x as on March 31, 2019 as against 1.68x as on March 31, 2018.

Substantial liquid assets

SIPL had gross investments to the tune of Rs.64.33crores in equity shares and mutual funds, as on March 31, 2019 which can be used to meet unforeseen demands. This provides some amount of liquidity comfort to the Company.

Key Rating Weaknesses

Moderate concentration risk

SIPL is exposed to moderate customer and supplier concentration risk. The top five customers about 51% and top five suppliers about 62.29% to the total sales and purchases respectively of nine months of fiscal 2020.

Low profit margins



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The company is a pure trading entity that deals majorly in resources like ore and minerals along with agro products as well as textile fabric & machinery. They procure the materials from the primary producers and sell them to their customers. Despite moderate EBITDA margin, the company has posted profit after tax of Rs.3.49 cr, in FY19. Furthermore, net margin remain weak at 1.11% as attributed to trading nature of operations.

Competitive and fragmented nature of the industry

The metal trading business is highly fragmented with several players in the market resulting in the company facing fierce competition and low entry barrier due to asset-light model. The pricing power of SIPL is low given that volume discounts offered by the companies and the credit period extended to its customers being the only tools to attract and retain customers.

Modest debt protection metrics

For the fiscal ended 2019, Total Debt/ GCA of the company remains stretched at 24.35x, due to comparatively higher debt levels as against its gross cash accruals. However, the interest coverage ratio remained positive on account of positive EBITDA posted during the year. Interest Coverage ratio may remain at a similar level over the medium term owing to high interest costs and weak profitability margins attributed to trading nature of operations.

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology on trading companies.

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

SIPL's bank limits remained utilized over 93% in last twelve months ending March 2020, which provides limited credit lines available for incremental working capital requirements. However, Investments in equity shares of blue-chip companies and mutual funds support the



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liquidity of the Company which stood at Rs.3.93 Cr and Rs.11.75Cr respectively in FY19. Also, cash accruals are also expected to remain modest at around Rs.7.5-9.45crore over the medium term against the expected repayment obligation of close to Rs.0.11-0.54 Cr over the medium term.

About the Company

Incorporated in 1973, Sara International Pvt Ltd (SIPL) is a part of the Sara Group. The Company is engaged in bulk trading of resources such as chrome ore lumps, zinc, manganese and steel along with agro commodities. Apart from these, it also trades in textile fabrics and sewing machines. SIPL is also engaged in trading/sales of immovable properties.

Financials (Standalone Basis)

(Rs. In Crore)

For the year ended / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	422.90	262.65
EBITDA	-1.64	21.22
PAT	35.89	3.49
Total Debt	123.36	120.59
Tangible Net worth	101.88	105.37
EBITDA Margin (%)	-0.39	8.08
PAT Margin (%)	7.66	1.11
Overall Gearing Ratio (x)	1.21	1.14

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating (Upgraded)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19 (February 11, 2019)	Date(s) & Rating(s) assigned in 2017-18



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1.	Fund Based Limits – Cash Credit/PCFC/PSC FC	Long Term/ Short Term	58.00	IVR BBB-/ Stable Outlook/ IVR A3	-	IVR BB+ / Stable Outlook /IVR A4+	IVR BB- /Stable Outlook /IVR A4 (Nov 01, 2017)
2.	Non fund based facilities-LC/BG	Short Term	32.00	IVR A3	-	IVR A4+ (February 11, 2019)	IVR A4 (Nov 01, 2017)

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:

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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
Long Term/ Short Term Fund Based Limits – Cash Credit/PCFC/PSCFC	-	-	-	58.00	IVR BBB-/ Stable Outlook/IVR A3
Short Term Non-fund based facilities LC/BG	-	-	-	32.00	IVR A3