

Press Release

Smartha Enterprises Pvt Ltd.

December 23, 2019

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned	Rating Action
Fund Based/Non Fund Based (Long Term/Short Term)	2.00	IVR BB+/ Positive Outlook/IVR A4+ (IVR Double B Plus with Positive Outlook/ IVR A Four Plus)	Rating reaffirmed and outlook revised from stable to positive
Non-Fund Based (Short Term)	42.00 (enhanced from Rs.15 crore)	IVR A4+ (IVR A Four Plus)	Reaffirmed
Total	44.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Smartha Enterprises Pvt Ltd (SEPL) continues to derive strength from its experienced management, established relationship with suppliers and customers, order backed nature of its business, satisfactory capital structure and moderate debt protection metrics. The rating strengths, however, are tempered by its small scale of operations, thin profit margin, volatility related to foreign exchange fluctuations, concentration risk and highly fragmented nature of the industry with volatility related to international edible oil prices. The outlook has been revised from stable to positive on account of expected improvement in its scale of operations with consequent improvement in its overall financial risk profile.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations on a sustained basis
- Improvement in profit margin leading to improvement in liquidity on a sustained basis

Downward Rating Factors

- Decline in revenue and profitability on a sustained basis
- Any weakening of its liquidity position or a decline in interest coverage lower than 1.50 times on a sustained basis

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- Deterioration in capital structure with overall gearing at more than 1.5x
- Withdrawal of subordinated unsecured loans

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management

The promoter of the company, Mr. Varun Gupta has an experience of about 8 years in the edible oil trading industry. The promoters are assisted in the day-to-day operation by a team of professionals having relevant industry experience.

Established relationship of the group with suppliers and customers

The promoters have been engaged in trading of edible oils for about 8 years. It has developed an established relationship with its customer and supplier base. Further, the group's other entities; RV Wines LLP (RV), Avyukta Agro Impex Pvt Ltd (AAIPL) and Vindeshwari Exim Pvt Ltd (VEPL) are also engaged in same line of business which drives the bargaining power of the company.

Order backed nature of business

The company generally engages in trading based on back-to-back orders from their customers and suppliers. The price is fixed before the shipment takes place. With respect to purchases, the entity opens a 180 days Letter of Credit in favour of suppliers. Meanwhile, it generally gives credit to its customers of a similar period, resulting in minimal funds being blocked in working capital.

Satisfactory capital structure with moderate debt protection metrics

The capital structure of the company continues to remain satisfactory though the overall gearing ratio moderated from 0.55x as on March 31, 2018 to 0.09x as on March 31, 2019 mainly due to the treatment of unsecured loan as quasi equity as per the declaration provided by the management. Further, the debt protection parameter also continues to remain moderate marked by an interest coverage ratio at 1.56x in FY19. However, total indebtedness of the company continues to remain high at 2.72x as on March 31, 2019.

Steady demand prospects of edible oil industry

The edible oil production in India has remained stagnant over the years, which is insufficient to fulfil the domestic requirements of edible oil. Consequently, the country's dependence on imports has increased over the years and currently around 65-70% of the domestic edible oil requirements are met through imports. The same provides ample growth opportunities to traders like SEPL to scale-up the business though stiff competition exists.

Key Rating Weaknesses:

Small scale of operations

The overall scale of operations is moderate despite satisfactory y-o-y growth of ~19% in FY19 driven by increased market penetration with revenues of Rs.62.55 crore as compared to Rs.52.61 crore in FY18, thereby, restricting operational and financial flexibility to some extent. However, the company has achieved operating revenue of Rs.123 crore till September 30, 2019 indicating a healthy growth going forward.

Thin profit margin

The company is purely into trading of edible oils. Notwithstanding the improvement over the past three years being a trading entity with limited value additions and operating in a highly competitive industry the profit margins continues to remain thin marked by EBITDA margin of 3.50% and PAT margin of 0.70% respectively in FY19. Thin profit margin resulted in low cash accruals for the company.

Exposure to risk of foreign exchange fluctuation

The company is exposed to risk of adverse movement in foreign exchange. The company generally imports from countries like Singapore, Malaysia & UAE while sales to counterparties in India are made on high sea basis. The company generally deals in USD with respect to purchases, whereas the sales are generally made in rupee. As the entity operates on a back to back arrangement, this risk is mitigated to a large extent. Further, the entity has obtained Forward Cover facility for about 85-90% of the exposure which also reduces the risk to some extent.

Highly fragmented industry and volatility related to international edible oil prices

The edible oil industry is highly fragmented with presence of numerous small players and low entry barriers. Moreover, palm oil prices are majorly influenced by the demand and supply situation in Indonesia and Malaysia and regulations in those countries. The company largely operates on back-to-back purchase and sales order basis; hence, mitigating the price risk to an extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

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Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its sufficient cushion in accruals vis -a-vis its low debt repayment obligation. Further, with a gearing of 0.09x as on March 31, 2019 the company has sufficient gearing headroom. The company generally relies on its non-fund based facility and does not utilize its fund based facility. Hence, its unutilized bank lines are also expected to supports its liquidity to an extent.

About the Company

Smartha Enterprises Pvt Ltd (SEPL) is engaged in the trading of edible oils (mainly crude palm oil). The company commenced operation 2011 onwards. The entity imports edible oils mainly from Singapore, Malaysia and U.A.E and facilitates high sea sales to customers like in India. The company is promoted by one Gupta family of Delhi and is presently looked after by Mr. Varun Gupta. In addition to operating this entity, the Gupta family also operates other entities which are engaged in similar oil trading operations– RV Wines LLP (Rated: IVR BB/Stable, IVR A4), Avyukta Agro Impex Pvt Ltd (Rated: IVR BB/Stable, IVR A4) and Vindeshwari Exim Pvt Ltd (Rated: IVR BB+/Stable).

Financials (Standalone Basis)

	(Rs. crore)	
For the year ended / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	52.61	62.55
EBITDA	1.65	2.19
PAT	0.31	0.44
Total Debt	1.97	0.60
Tangible Net worth	3.55	6.98
EBITDA Margin (%)	3.14	3.50
PAT Margin (%)	0.59	0.70
Overall Gearing Ratio (x)	0.55	0.09

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			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	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based/Non Fund Based (Long Term/Short Term)	-	2.00 (Previously 1.50 and proposed 0.50)	IVR BB+/Positive Outlook/IVR A4+	IVR BB+/Positive Outlook/IVR A4+	IVR BB+/Stable Outlook/IVR A4+	--	--
2.	Short Term Non-Fund Based Facilities	Short Term	42.00 (Previously 15.00)	IVR A4+	IVR A4+	IVR A4+		

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

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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based/Non Fund Based Facilities - Cash Credit/ Inland/Foreign Letter of Credit	NA	NA	NA	2.00	IVR BB+/ Positive Outlook
Short Term Fund Based facilities- LC	NA	NA	NA	42.00	IVR A4+