Press Release

Sonasati Organics Pvt Ltd

May 04, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	46.87 (reduced from Rs.67.48)	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Revised from IVR BB; Stable (IVR Double B with Stable Outlook)
Short Term Bank Facilities	4.90	IVR A4+ (IVR A Four Plus)	Revised from IVR A4 (IVR A Four)
Total	**51.77 (Fifty One Crore and Seventy Seven Lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Sonasati Organics Pvt Ltd (SOPL) takes into account completion of its capex and commencement of expanded operation during FY20, infusion of fund by the promoters in FY20 coupled with improvement in its scale of operation with improvement in profitability leading to improvement in debt protection metrics during FY20 (Provisional). Further, the aforesaid ratings continue to drive comfort from its experienced promoters, reputed clientele and favourable policy initiatives by the Government. However, these rating strengths are continues to remain constrained by small scale of operation with thin profitability, susceptibility of operating margin to volatile raw material prices, exposure to government regulations and moderate credit risk profile marked by moderate capital structure and its working capital intensive nature of operations.

Rating Sensitivities

Upward factors

- Significant 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
- Sustenance of capital structure with TOL/TNW to remain below 3x
- Improvement in working capital cycle leading to improvement in liquidity on a sustained basis and reduction in cash credit utilisation

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 2x
- Withdrawal of subordinated unsecured loans amounting to Rs.20 crore from the business and/or moderation in the capital structure
- Deterioration in working capital management affecting the liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

  The promoters of the company, Mr. Rakesh Kumar, Mr. Manish Jaiswal and Mr. Devendra Kumar Singh have been associated with the company for more than half a decade. The promoters have ensured a successful transition from the manufacturing of extra neutral alcohol and rectified spirit to ethanol production now.They are well supported by a team of experienced personnel.
- **Reputed Clientele**

  SSOPL only caters to the requirements of state owned petroleum companies.Orders are secured through bidding for tenders floated by these OMC's. The tender is usually for a period of one year post which the company again participates via a fresh tender.
- **Infusion of fund by the promoters in FY20**

  The promoters have infused funds in the form of unsecured loans aggregating to Rs.9.99 crore in FY20 to support the business operations
- **Completion of capex during FY20 to drive earnings**

  The company gradually converted its ENA plant for manufacturing of Ethanol in view of high opportunities and demand of the same. The capex plan of the company was completed in June, 2019. With enhanced Ethanol capacity to 75000 KLPD, Infomerics expects growth in its revenue in near term in view of high demand of Ethanol among oil manufacturing companies.

- **Policy initiatives by the Government**

  In January 2013, the Union government launched the Ethanol Blended Petrol (EBP) programme, which made it mandatory for oil companies to sell petrol blended with at least 5 per cent of ethanol. The EBP programme is presently being implemented in a total of 13 states with blending level of about 2% against a mandatory target of 5%. In a later decision, the government has set a target of 10 per cent ethanol blending in petrol by 2022. In lieu of the above developments and also given that the government currently does not allow import of ethanol for fuel blending, the outlook appears bright for this industry.

Key Rating Weaknesses

- **Small scale of operation with thin profitability albeit improvement in FY20**

  The operating income of the company witnessed moderation in FY19 mainly due to lower production and stoppage of production during Q1FY19. However, with commencement of operation in extended facility from June,2019 the total operating income grew in FY20. Notwithstanding the y-o-y growth in total operating income by~16% to Rs.52.70 crore in FY20 (provisional), the scale of operations of the company continued to remain small. The small scale of operations restricts the financial flexibility of the company in times of stress. Further, despite its strong EBITDA margin over the years the PAT margin continued to remain thin owing to its high capital charges (Depreciation and Interest) attributable to capex implemented by the company for setting up the liquor facility initially and followed by an expansion project for manufacturing of Ethanol ended in June 2019. However, then PAT margin has improved from 0.35% in FY19 to 1.32% in FY20 (Prov.) on the back of increase in absolute EBITDA. With increase in profitability the gross cash accruals have also improved from Rs.8.17 crore in FY19 to Rs.9 crore in FY20 (Prov.).

- **Susceptibility of operating margin to volatile raw material prices**

  The key raw material for ethanol manufacturing is molasses. Molasses availability and prices both are volatile in nature due to presence of agro climatic risk and cyclicality in the sugar industry and

- **Exposure to government regulations**

  Ethanol production and demand from OMC’s are highly dependent on government regulations.

- **Moderate credit risk profile**

  SSOPL has a moderate credit profile marked by higher dependence on long term debt with overall gearing at1.17x and Long term Debt to equity ratio at 1.07x as on March 31, 2020 (provisional). To arrive at the net worth, Infomerics has considered unsecured loan aggregating to Rs.20 crore as quasi equity as the same are subordinated to its bank facilities. Total indebtedness of the company remained satisfactory at 1.70x as on March 31,2020 (Prov.)Total debt to GCA and Long term debt to EBITDA appeared moderately stressed at 7.42x and 3.97x respectively in FY20on account of term loans and unsecured loans availed by the company for setting up the liquor plant initially and thereby the an expansion project. Further, the debt service coverage ratio of the company was also remained weak over the past years. However, interest coverage ratio was remained healthy and debt servicing was supported by infusion of unsecured loan by the promoters. Presence of high long term debt and high near term debt repayment weakened the credit risk profile of the company.

- **Working capital intensive nature of operations**

  The operations of the company remained working capital intensive due to its high inventory holding requirements owing to exposure of its raw materials (mainly Molasses) to agro climatic risk. Consequently, the operating cycle of the company remained high. In order to fund its working capital requirements the company is largely dependent on its working capital borrowing limits and the same remained high at ~97% during the past 12 months ended February, 2020, indicating high working capital intensity for the business.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

SSOPL has earned a gross cash accruals of Rs.9.00 crore in FY20 provisional. Further the company is expected to earn a gross cash accruals of around ~Rs.14 crore as against debt repayment obligation of around Rs.13.00 crore. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. However, any unplanned capex may affect the liquidity position of the company. Further, the average cash credit utilisation of the company remained high at ~97% during the past 12 months ended February 2020 indicating a limited liquidity cushion.

About the Company

Sona Sati Organics Private Limited (SSOPL), incorporated in 2004 was earlier into manufacturing of extra neutral alcohol and rectified spirit with its unit located in Bihar. With the Government of Bihar imposing a ban on liquor, SSOPL ventured into manufacturing of ethanol to cater to the requirements of petroleum companies. The commercial operation of the ethanol plant commenced from June 16, 2016. Thereafter the promoters enhanced the production capacity of the company and the capex concluded in June, 2019. Presently, the company is operating with a capacity of 75000 KLPD.

Mr Rakesh Kumar, Mr Manish Kumar Jaiswal, Mr Manoj Kumar, Mr Ramashankar Prasad and Mr Devendra Prasad Singh are the promoter/directors of the company.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	45.43	52.70
EBITDA	13.60	15.33
PAT	0.16	0.69
Total Debt	61.21	66.76
Tangible Net worth	36.46	37.15
Adjusted Tangible Net worth	56.46	57.15
EBITDA Margin (%)	29.95	29.09
PAT Margin (%)	0.35	1.32
Overall Gearing Ratio (x)	1.08	1.17

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: INC from India Ratings as per press release dated November 13, 2018

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.	Long Term Fund Based Limits - Cash Credit	Long Term	10.00	IVR BB+ /Stable	-	IVR BB/ Stable (Mar 11, 2019)	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	36.87	IVR BB+ /Stable	-	IVR BB /Stable (Mar 11, 2019)	-
3.	Short Term Non Fund Based Limits- Bank Guarantee	Short Term	4.00	IVR A4+	-	IVR A4 (Mar 11, 2019)	-
4.	Short Term Fund Based Limits- WCDL	Short Term	0.90	IVR A4+	-	IVR A4 (Mar 11, 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
Long Term Fund Based Limits - Cash Credit	-	-	-	10.00	IVR BB+ /Stable
Long Term Fund Based Limits – Term Loan	-	-	March, 2027	36.87	IVR BB+ /Stable
Short Term Non Fund Based Limits-Bank Guarantee	-	-	-	4.00	IVR A4+
Short Term Fund Based Limits-WCDL	-	-	-	0.90	IVR A4+