



## Press Release

### Sagar Nutriments Private Limited

April 07, 2021

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities – Term Loan	52.86 (Enhanced from Rs. 42.32 Crore)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Long Term Fund based Bank Facilities-Cash Credit	35.00 (Reduced from Rs.45.00 Crore)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
<b>Total</b>	<b>87.86</b> <b>(Eighty Seven Crores and Eighty Six Lakhs Only)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

IVR has reaffirmed the long-term rating of the bank loan facilities of Sagar Nutriments Pvt Ltd (SNPL). The rating continues to factor in the vast experience of the promoters and their resourcefulness, proximity to paddy growing areas, improved operating margin in FY 2020, revenue scale of 9MFY21, satisfactory capital structure and with comfortable debt protection metrics, and moderate working capital intensive nature of operations. However, the ratings are constrained by short track record of the company, exposure to agro-climatic risk, fragmented nature of the industry, and vulnerability to changes in government policies.

#### Key Rating Sensitivities:

##### Upward Factors

- 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.
- Effective working capital management with improvement in operating cycle and liquidity

##### Downward Factors

- Deterioration in the capital structure with substantial increase in gearing ratio and deterioration in interest coverage.



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- Elongation in the operating cycle impacting the liquidity and higher average utilization 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 “Sagar Group” of Madhya Pradesh who is in existence for last 31 years in multiple sectors. “Sagar Group” has executed more than 12 projects in Bhopal city and sold out more than 3000 dwellings. In education, the group is running 4 Engineering colleges and 4 Public schools. Sagar Public school is one of the reputed schools in the city for imparting quality education. In cotton yarn, the group is growing fast and has installed 148992-spindle capacity in a short span. 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 Sagar group and 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.

##### Improved operating margin in FY20 and revenue scale in 9MFY21

SNPL derives major portion of revenue from supplies of rice to major export huts. The company has witnessed a decline in total operating income from Rs 160.62 crore in FY19 to Rs 131.38 crore due to decline in revenue generated through export huts because of covid19 lockdown imposed which impacted sales adversely. However due to reduction in overall cost of production mainly due to lower cost of raw material consumed, the operating margins of the company has improved to 6.21% (Rs.8.16 Crs) in FY2020 as against 5.59% (Rs. 8.97 Crs) in FY2019. Net margins are in line with operating margins and further improved to Rs. 3.15Crs (2.39%) in FY2020 (PY: Rs. 3.14Crs, 1.95%) mainly due to reduced finance cost. During



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9MFY21 the company has achieved sales of Rs 104.23 crore with an EBITDA of Rs 8.13 crore as against sales of Rs 101.08 crore with EBITDA of Rs 5.81 crore in 9MFY20.

### **Satisfactory capital structure with comfortable debt protection metrics**

SNPL total debt comprises of Rs 28.20 crore term loan with repayment of Rs 1.65 crore and working capital limits of Rs 25.12 crore as on March 31, 2020. SNPL has availed additional term loan to enhance its production capacity and set up an captive power plant resulting in moderation in capital structure yet remain satisfactory. The long term debt equity and overall gearing ratio stood comfortable at 0.90x and 1.67x as on March 31, 2020. Total indebtedness of the company as reflected by TOL/TNW also remained adequate at 2.29 x as on March 31, 2020. The debt protections parameters are comfortable, marked by interest coverage ratio of 2.87x in FY20. Further during FY20, the company has earned a gross cash accruals Rs 5.31 crore as against its debt repayment obligation of Rs.1.65 crore. The company has utilised ~72% of working capital in 12 months ended Dec 2020 providing liquidity cushion.

### **Moderate Working capital intensive nature of operations**

The operations of the company are capital intensive. SNPL has a satisfactory operating cycle of 64 days in FY20 on account of 66 days of inventory period and 29 days of collection period. The company managed its receivables cycle well which gets reflected in the average debtor days of around a month in FY20. Being an agro commodity, the procurement of paddy for the entire year is seasonal and happens during the months of October-December which increases the working capital requirement. Also basmati requires ageing to attain desired quality. The current ratio is adequate at 1.15x as on March 31, 2020.

### **Key Rating Weaknesses**

#### **Short track record**

SNPL began operations in August 2016 and has less than five 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



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hence the raw material needs to be adequately stocked for the processing during non-season period.

### **Fragmented nature of the industry**

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.

### **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.

### **Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Manufacturing Sector

Financial Ratios & Interpretation (Non- Financial Sector)

### **Liquidity – Adequate**

The liquidity position of the company is marked by its adequate expected gross cash accruals subject to achieving of its projected profitability against its repayment obligations. SNPL has generated cash accrual of Rs 5.31 crore against repayment of Rs 1.65 crore. Further, the company has adequate liquidity buffer as indicated by low average utilisations in its bank limits at~72% in the past 12 months ended on Dec 2020. Also, the Company is expected to generate adequate cash accruals in the range 6-12 crores as against its Rs 5 to 9 crore repayment obligations over the projected year (FY21-23).

### **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 in



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Raisen, Madhya Pradesh. The company sales its produce mainly to exporters. Besides, it also developed 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 2 MW. The additional capacity is set up adjacent to the existing unit and is started commercial production from Q1 2021 onwards.

### Financials (Standalone):

(Rs. Crore)

For the year ended*/As on	31-03-2019	31-03-2020
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	160.62	129.11
EBITDA	8.97	5.89
PAT	3.14	3.15
Total Debt	21.29	54.97
Adjusted Tangible Net Worth	25.97	32.99
EBITDA Margin (%)	5.59	4.56
PAT Margin (%)	1.95	2.39
Overall Gearing Ratio (x)	0.82	1.67

\*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: NA



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### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long term Bank Facilities – Term Loan	Long Term	52.86 (Enhanced from Rs. 42.32 Crore)	IVR BBB-/Stable Outlook	IVR BBB-/Stable Outlook (April 17, 2020)	--	--
2.	Long Term Fund based Bank Facilities- Cash Credit	Long Term	35.00 (Reduced from Rs.45.00 Crore)	IVR BBB-/Stable Outlook	IVR BBB-/Stable Outlook (April 17, 2020)	--	--

**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](http://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
Term Loan-I	--	--	April ,2027	10.14	IVR BBB-/Stable (Reaffirmed)
Term Loan-II	--	--	April ,2027	31.00	IVR BBB-/Stable (Reaffirmed)
Term Loan (GECL)	--	--	--	11.72	IVR BBB-/Stable (Assigned)
Cash Credit	--	--	--	35.00	IVR BBB-/Stable (Reaffirmed)