



Press Release

Samunnati Agro Solutions Private Limited March 25, 2021

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long term - Bank Facilities	5.00	IVR A-/Stable Outlook (Pronounced as IVR Single A Minus with Stable Outlook)	Assigned
Short Term – Bank Facilities	50.00	IVR A2+ (Pronounced as Single A Two Plus)	Assigned
Total	55.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to bank facilities of Samunnati Agro Solutions Private Limited (SASPL) derives comfort from its experienced promoters, managerial and financial support from the parent company name Samunnati Financial Intermediation & Services Pvt Ltd (rated as IVR A-/Stable outlook in May, 2020) and its experienced management team with its remarkable presence in the industry. The rating also factors in its Diversified product and customer profile leading to healthy revenue growth, Strategic importance, and expectation of strong support from the parent company and its adequate capital structure. These rating strengths are partially offset by Project implementation risk as it is into the limited track record of operations with geographical concentration in revenue with susceptibility to climatic conditions, volatility in prices of agricultural commodities and debtor risk and standalone basis its weak interest coverage metrics.

Key Rating Sensitivities

Upward Factors

- ✓ Upward revision in the rating of the parent, Samunnati Finance, by one notch or higher.

Downward Factors

- ✓ Downward revision in the rating of the parent, Samunnati Finance, by one notch or higher
- ✓ Any substantial reduction in the stake or revision in stance of support by Samunnati Finance



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- ✓ Deterioration in present capital structure beyond 3 times.
- ✓ Substantial decline in revenue or decline in profitability.
- ✓ Stretch in the working capital cycle, leading to deterioration in the financial risk profile.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strategic importance and expectation of strong support from the parent:

Strong linkage between Samunnati Agro and its parent, Samunnati Finance, is reflected in shared brand name and 100% ownership. The company enhances the parent's presence in the agricultural commodities market. The two entities have two common directors at the board level. Samunnati Agro has the financial flexibility to raise capital whenever necessary, as its parent is committed to and capable of infusing capital.

Adequate capital position:

Samunnati Agro's capital position has improved considerably, with recent equity infusion of Rs 59.99 crore by Samunnati Finance. Adjusted networth stood at Rs 77.18 crore as on March 31, 2020 (against Rs 16.36 crore as on March 31, 2019), and is adequate, with regard to the current scale of operations. Thus, adjusted gearing also improved to 0.57 times as on March 31, 2020, compared to 1.73 times as on March 31, 2019.

Extensive experience of the promoter and experienced senior management team;

The founder of the Samunnati group, Mr Anil Kumar S G, has over 27 years of experience in banking and agricultural financing businesses. He entered the rural agricultural financing space in 2007, as the founder trustee of the IFMR Trust. He was involved in the design and deployment of a local financial institution model called Kshetriya Gramin Financial Services for the IFMR trust. The second line of management comprises professionals with average experience of over a decade in the fields of commercial lending, audit, operations and information technology. The board has adequate representation from investors and extends strategic support to the company. The management is aware of risks associated with the segment and has put in place an elaborate credit policy for the on boarding and sanctioning processes, including insuring its current exposures.



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Diversified product and customer profile leading to healthy revenue growth

Samunnati Agro has diversified trading portfolio of over 200 products, comprising fruits and vegetables, and other agro commodities. Samunnati Agro works with highly rated and few listed entities. The diversified product profile has led to healthy customer base and revenue has grown sharply to Rs 594 crore in fiscal 2020 from Rs 14.48 crore in fiscal 2017. Over the years, Samunnati Agro has built strong relationships with leading agricultural trading participants such as ITC, Cargill, ADM and a host of modern trade entities, including More Super Markets, Reliance Retail, Future Consumer Ltd, Spencer Retail, among others, as a tier-I vendor on pan-India basis. This has led to stable and predictable cash flow and the company has broad based its customer portfolio to include externally rated entities and listed companies as one of their key customers and suppliers for various agricultural commodities, given its seamless connect with the FPO (farmer producer organizations) segment.

Key Weaknesses

Limited track record of operations with geographical concentration in revenue

Having commenced full-fledged operations in fiscal 2018, Samunnati Agro has substantially scaled up in fiscals 2019 and 2020. Therefore, the company's trading operations lack seasoning and its profitability performance also needs to be monitored over a longer period of time. The business model involves market linkage between farmer-producer and community-based organizations, farmers and modern retail corporations, institutional buyers, aggregators and traders. Hence, the company's performance will depend on the credit risk profiles of these counterparties. However, as a risk mitigation measure Samunnati Agro has insured 85% of its receivables under a structured arrangement which partially mitigates risk of bad debt. The entity has been growing its presence across large production and consumption centres in order to manage the risk of geographical concentration in revenue.

Susceptibility to climatic conditions, volatility in prices of agricultural commodities and debtor risk

Samunnati operates in unique 'bill-to-ship-to' model that offsets price, volatility, quality and quantity risk. Nevertheless, the company is exposed to debtor risk given the credit period offered to customers. However, this debtor risk is also partially offset by the insurance cover



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taken for each transaction. Operating margin has been at 2-2.7% for the three fiscals ended March 31, 2020. Moreover, competition from both organised and unorganised players in the agricultural commodities segment, limits the pricing power with customers. Hence, operating margin may remain low at 2-3% over the medium term.

Weak interest coverage ratio:

The debt protection metrics of the company are weak, with interest coverage and net cash accrual to total debt at 1.1 times and 0.02 time, respectively, in fiscal 2020. The weak interest coverage ratio is because of low operating margin and high reliance on external debt. Improvement in debt protection metrics will be a key rating sensitivity factor.

Analytical Approach: Consolidated (Samunnati Agro Solutions Pvt Ltd + Samunnati Financial Intermediation & Services Pvt Ltd).

Applicable Criteria:

Rating Methodology for Trading Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Liquidity: Adequate

On the back of managerial, and financial support from the parent entity Samunnati Financial Intermediation & Services Pvt Ltd, Samunnati Agro Solutions Pvt Ltd has an adequate liquidity position. Furthermore, as December 31, 2020, the company has unutilized banking lines in hand of Rs.57.00 Crs and average utilization of working capital facilities of 21.25% in last 12 months ended December 2020. On a standalone basis, liquidity from business operations remains weak, as indicated by low cash accrual. Net cash accrual was Rs 1.00 crore in fiscal 2020, and is likely to increase to Rs 1.47 crore and Rs. 4.14 crore in fiscal 2021 and 2022, respectively, against debt obligation of Rs 10.41 crore in Fiscal 2021. Also, Samunnati Agro has cash in hand of Rs 16.08 crore, which can be used to service debt or interest payments going forward. Additionally, overall liquidity is supported by regular infusion of funds from Samunnati Finance, in the form of unsecured loans and equity.

About the Company



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About Samunnati Agro Solutions Private Limited:

In September 2016, Samunnati Agro was incorporated as a wholly owned subsidiary of Samunnati Finance. The company trades in agricultural produce, including fruits and vegetables. It enables small farmers to receive optimal value for their produce by providing market linkages between farmer-producer organisations, farmers, local mandis and modern retailer, corporates, and traders. It caters to a large base of almost 300 clients and deals in over 300 commodities.

About Samunnati Financial Intermediation & Services Pvt Ltd (Parent Company)

Samunnati Finance was incorporated in November 2014, and is registered as a non-deposit accepting, non-banking financial company, offering financial services to the agricultural value chain. It started its operations by offering financing through retail loans to the dairy value chain. In December 2015, the company gave its first loan to a farmer-producer organisation, and in January 2016, it provided its first loan to an agricultural enterprise. Finally, in October 2016, the company established three verticals i.e. retail, community-based organisations, and agricultural enterprise. The company has discontinued the retail loan book and it is only the outstanding portfolio that is running down, with no fresh disbursements made since the second half of fiscal 2019. It has a B2B2C (business to business to consumer) model, which does not engage in direct dealing with retail loans.

Financials (Consolidated basis)

	(Rs. In Crore)	
For the year ended / As on*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	430.43	726.63
EBITDA	48.21	66.01
PAT	8.61	11.94
Total debt	434.24	518.90
Tangible Net worth	192.86	492.57
PAT margins (%)	2.00	1.64
EBITDA margins (%)	11.20	9.09
Overall Gearing Ratio (x)	2.25	1.05
Gross NPA (%)	1.6%	3.67%
Total Loan assets	430.76	686.12

*classification as per Infomerics standard

Status of non-cooperation with previous CRA: Nil



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Any other information: N.A

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	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.	Fund based Facilities–Term Loan	Long Term	5.00	IVR A- /Stable Outlook	-	-	-
2.	Fund based Facilities	Short Term	50.00	IVR A2+	-	-	-

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 Bank Facilities–Term Loan	-	-	April, 2023	5.00	IVR A-/ Stable Outlook
Working capital/Short term loan against pledge agro commodities	-	-	-	50.00	IVR A2+