Shakti Industries

March 23, 2021

Ratings

S. No	Instrument /Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term bank Facility	45.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable outlook)	Assigned
2.	Short Term- Letter of Credit	12.00	IVR A3 (IVR A Three)	Assigned
	Total	**57.00**		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of **Shakti Industries** draws comfort from its experienced promoters and top Management, Growing scale of operations with Strong credit metrics and a loyal customer base. However, these rating strengths are partially offset by intense competition in the industry and susceptibility to volatility in raw material prices.

Key Rating Sensitivities:

Upward Factor:

- Continuous growth in revenue along with healthy profitability and debt metrics
- Improvement in management of liquidity

Downward factor:

- Fall in revenue and deterioration of debt protection metrics.
- Stretching of working capital cycle and requirements

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters and qualified management:**

The firm has been engaged in the edible oil industry since 1981. The partners of the firm, Mr. Jagdish Chand, Mr. Jai Gopal and Mr. Suresh Kumar have a cumulative experience of 40 years in the agro- commodities business. Apart from edible oil, the partners also have extensive experience in manufacturing and trading of honey showcased by their other group companies. The firm has a very wide distribution network through which most of the sales are made. The major customer of the firm is HAFED, Haryana.

- **Strong Credit Profile:**

SIA's financial risk profile is marked by healthy debt protection metrics, moderate gearing, and net worth**.** The total debt of Rs. 30.71 crore as of March 2020 consists of long-term loans of Rs. 6.10 crore and Rs. 24.61 crore of working capital borrowings**.** The total outside liabilities to tangible net worth (TOL/TNW) ratio improved significantly to 1.94 times as on 31 March 2020 (from 3.92 times as on 31 March 2018), largely on account of retention of profits. The firm has tangible net worth (including quasi equity) of Rs. 23.96 Cr as of 31 March 2020. The debt metrics have improved over the last 3 years with the firm being able to generate enough surplus to repay the obligations.

- **High brand equity with loyal customer base:**

The firm has been able to develop brand equity through the quality of its products. The customer base has also been repeatedly buying the firm's products. This has resulted in an exponential increase in the top line of the firm. The levels will be sustained soon as showcased in the recent 9-month results. The firm sells its products across the states of J&K, Punjab, Haryana, Himachal Pradesh, Delhi etc. The firm also bids for government contracts. There are majorly 2 brands i.e., 'Rajdhani' & 'Tota'.

Key Rating Weaknesses

- **Low Profitability margins:**

Even though the firm has seen exponential growth in the revenue, it has been unable to capitalise on the economies of scale. With an OPM of 2.66% and NPM of 0.76%, there is very low value-addition. The raw material consumed as a percentage of the total sales remains at an average of ~87% for last 3 fiscal years.

- **Competitive & capital-intensive nature of Industry:**

The edible oil industry is highly competitive with many small players that cater to the local demand. To reach economies of scale and have a larger market share, the firm must continuously invest in expanding facilities. Modest scale of operations along with intense competition restricts the pricing flexibility of SIA. The modest scale of operations amid intense competition is expected to restrict SIA's pricing and bargaining power over the medium term. As the firm produces essential goods, the products must be priced conveniently to be competitive enough. This puts a pressure on the margins.

- **Susceptibility to fluctuations in raw material prices:**

The raw material which is mustard seeds in the firm's case are volatile in nature. The ability to pass on price risk to customers mitigates the exposure, but the working capital-intensive nature of operations should keep the firm exposed to this risk. Even if the firm can pass on the extra cost on to the customer, the customers might start preferring other brands due to higher costs. The firm needs to make sure that their costs are kept in check and do not eat into the profits being generated.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

Shakti Industries had a GCA of Rs. 3.93 crore in FY20 as against its repayment obligation of Rs. 0.47 crore. The firm has a Current Ratio of 1.51x as of March 31, 2020. The free cash & cash equivalent was Rs. 4.65 Crore as on March 31, 2020. Firm has projected GCA of 9.10 crores -26.21 crores in the FY21-23 against the repayment obligation of 1.14 -2.43 crores for FY21-23. Liquidity is expected to remain Adequate.

About the Company

Shakti Industries was established as a partnership firm in 1970, near Ludhiana Punjab. The firm manufactures and trades in Mustard Oil and others including Rice Bran Oil. The firm manufactures around 35MT of kachi ghani mustard oil per day through natural extraction with the use of traditional 'Kohlus'. The raw material, mustard seeds, is procured from Haryana and Rajasthan through brokers 'on oil content' basis during the whole year.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	356.72	397.24
EBITDA	8.40	10.56
PAT	2.01	3.00
Total Debt	29.74	30.71
Adjusted Tangible Net worth	22.67	23.96
EBITDA Margin (%)	2.35	2.66
PAT Margin (%)	0.56	0.76
Overall Gearing Ratio (x)	1.31	1.28

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

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.	Cash Credit	Long Term	45.00	IVR BBB-/ Stable Outlook	-	-	-
3.	Letter of Credit	Short Term	12.00	IVR A3	-	-	-

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.

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 Facility – Cash Credit	-	-	-	45.00	IVR BBB-/ Stable Outlook
Short Term- Letter of Credit	-	-	-	12.00	IVR A3