Press Release

Smartha Enterprises Private Limited
March 05, 2021

Ratings

Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
Short Term Bank Facilities	44.00 (Enhanced from Rs. 42.00 crore)	IVR A4+ (IVR A four Plus)	Rating Reaffirmed to IVR A4+ (IVR A Four Plus)
Long Term Bank Facilities*	(2.00)#	IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook	Rating Reaffirmed to IVR BB+ and outlook revised from Positive to Stable
Total	**44.00**		

*Earlier there were Fund based limit of Rs. 1.50 crore and proposed long term/short term limit was of Rs. 0.50 crore.
#Long term Fund Based facility of Rs. 2.00 crore is the sublimit of Short Term Non Fund Bank Facilities.

Details of Facilities are in Annexure 1

Detailed Rationale

The rating to the bank facilities of Smartha Enterprises Pvt Ltd (SEPL) have been reaffirmed taking into account experienced management, support in the form of unsecured loans, established relationship with suppliers and customers, order backed nature of business, comfortable liquidity profile, improving capital structure and debt protection metrics and the outlook has been revised to stable by taking into account expected moderation in operating revenue of FY21, thin profit margins, exposure to risk of foreign exchange fluctuation and highly fragmented industry and volatility to international edible oil prices.

Key Rating Sensitivities

Upward Rating Factors

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

Downward Rating Factors

- More than expected moderation in revenue

- More than expected weakening of its liquidity position or a decline in interest coverage
- Deterioration in capital structure

List of Key Rating Drivers with Detailed Description

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. Mr. P. Shankar, executive director has a vast experience of 35 years in oil trading business. The promoters are assisted in the day-to-day operation by a team of professionals having relevant industry experience.

Established relationship 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 other entities of promoter's family 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 improved to 0.01x as on March 31, 2020 from 0.05x 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 2.10x in FY20.

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

Expected Moderation in Operating Revenue of FY21

The overall scale of operations has increased to Rs. 264.52 crore in FY20 from Rs. 62.55 crore in FY19. The operations of the company were impacted as a result of outbreak of covid-19 as well as adverse prices on foreign exchange transactions. Driven by the factors, the operating revenue of the company is projected at Rs. 90.00 crore in FY21. However, from FY22 the company is anticipating to reach its pre-covid level of operating revenue.

Thin Profit Margins

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 1.45% and PAT margin of 0.18% respectively in FY20. 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 95-98% of the exposure from the lending bank which also reduces the risk to some extent.

Highly fragmented industry and volatility to international edible oil prices

Owing to low entry barriers the edible oil trading industry is highly fragmented with presence of numerous organised and unorganised players. 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)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its sufficient cushion in accruals Vis -a-Vis its negligible debt repayment obligation. Further, with a gearing of 0.01x as on March 31, 2020 the company has sufficient gearing headroom driven by infusion of promoters equity of Rs.14.24 crore which has been treated as quasi equity. 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.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	62.55	264.52
EBITDA	2.18	3.83
PAT	0.46	0.47
Total Debt	0.36	0.15
Tangible Net worth	3.98	7.45
EBITDA Margin (%)	3.49	1.45
PAT Margin (%)	0.74	0.18
Overall Gearing Ratio (x)^	0.05	0.01

Status of non-cooperation with previous CRA: Nil

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.	Letter of Credit/ Bank Guarantee	Short Term	44.00	IVR A4+	IVR A4+ (December 12, 2019)	IVR A4+ (August 22, 2018)	-
2.	Cash Credit/ Overdraft	Long Term	(2.00)*	IVR BB+/ Stable Outlook	IVR BB+/ Positive Outlook (December 12, 2019)	IVR BB+/ Stable Outlook (August 22, 2018)	-

* Cash Credit/ Overdraft facility is the sublimit of LC Facility

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
Short Term Bank Facilities- Letter of Credit/ Bank Guarantee	-	-	-	44.00	IVR A4+
Long Term Bank Facilities- Cash Credit/ Overdraft	-	-	-	(2.00)*	IVR BB+/Stable Outlook

*Cash Credit/ Overdraft Facility is the sublimit of Letter of Credit Facility