



Press Release

Samunnati Agro Solutions Private Limited September 27, 2021

Ratings

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

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in long term and short-term rating for the bank facilities of Samunnati Agro Solutions Private Limited (SASPL) reflects the revision in the rating of parent company Samunnati Financial Intermediation & Services Pvt Ltd as approach was consolidated along with weakening in the profitability metrics and financial risk profile for FY2021. On standalone basis, SASPL's has achieved a revenue of Rs.764.68 crores (PY: Rs.592.49 crores) with a loss of Rs.7.09 crores (PY: profit after tax of Rs.1.47 crores) in FY2021 (Provisional). Furthermore, we have taken account of its limited track record of operations with susceptibility to climatic conditions, volatility in prices of agricultural commodities and debtor risk and standalone basis its thin margins led to weak coverage metrics. However, the rating derives comfort from its experienced promoters and 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 and its adequate capital structure.

Key Rating Sensitivities

Upward Factors

- ✓ Upward revision in the rating of the parent, Samunnati Financial Intermediation & Services Pvt Ltd.

✓ Downward Factors



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- ✓ Downward revision in the rating of the parent, Samunnati Financial Intermediation & Services Pvt Ltd.
- ✓ Any substantial reduction in the stake or revision in stance of support by Samunnati Financial Intermediation & Services Pvt Ltd
- ✓ 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

A. Key Rating Strengths

Strategic importance to and expectation of strong support from the parent:

Strong linkage between SamunnatiAgro 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. SamunnatiAgro has the financial flexibility to raise capital whenever necessary, as its parent is committed to and capable of infusing capital.

Adequate capital position:

SamunnatiAgro's capital position has improved considerably, with recent equity infusion of Rs 59.99 crore by Samunnati Finance. Tangible networth stood at Rs 61.18 crore as on March 31, 2021 (against Rs 71.34 crore as on March 31, 2020), and is adequate, with regard to the current scale of operations. Furthermore, there is an unsecured loan given by parent company of Rs.45.00 crore and Rs.42.00 crore in FY21 & FY20 respectively. Thus, adjusted gearing also improved to 1.76 times as on March 31, 2021, compared to 0.60 times as on March 31, 2020. The company's ability to ramp up internal accretion so as to self-sustain its capital position and, thereby, keep gearing at around 3 times, remains a monitorable.

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



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deployment of a local financial institution model called KshetriyaGramin 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.

Diversified product and customer profile leading to healthy revenue growth

SamunnatiAgro has diversified trading portfolio of over 200 products, comprising fruits and vegetables, and other agro commodities. SamunnatiAgro works with highly rated and few listed entities. The diversified product profile has led to healthy customer base and total operating income has grown sharply to Rs.765 crore in fiscal 2021 & Rs 593 crore in fiscal 2020 from Rs 14.48 crore in fiscal 2017. Over the years, SamunnatiAgro 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.

B. Key Rating Weaknesses

Limited track record of operations with geographical concentration in revenue

Having commenced full-fledged operations in fiscal 2018, SamunnatiAgro 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 organisations, 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 SamunnatiAgro has insured 85% of its receivables under a structured arrangement which partially mitigates risk



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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 taken for each transaction. Operating margin has been at 1-2.7% for the three fiscals ended March 31, 2021. 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.

Thin margins led to weak coverage metrics:

Operating margin has been deteriorated from 0.93% in FY2020 to 0.39% in FY2021 mainly due to increase opex expensed and increased COGS. Furthermore, on net margins levels, the company continues to be in losses. Moreover, competition from both organized and unorganised players in the agricultural commodities segment, limits the pricing power with customers. Hence, operating margin may remain low at ~2% over the medium term. The debt protection metrics of the company are weak, with interest coverage at 0.52 times in fiscal 2021. 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 (SamunnatiAgro Solutions Pvt Ltd + Samunnati Financial Intermediation & Services Pvt Ltd).

Applicable Criteria:

Rating Methodology for Trading Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Liquidity: Adequate



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On the back of managerial, and financial support from the parent entity Samunnati Financial Intermediation & Services Pvt Ltd, SamunnatiAgro Solutions Pvt Ltd has an adequate liquidity position. On a standalone basis, liquidity from business operations remains weak, as indicated by low cash accrual against its debt obligation of Rs.75.72 crore in Fiscal 2022. Also, SamunnatiAgro has cash in hand of Rs 27.59 crore (excluding margin money with bank), 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

About SamunnatiAgro Solutions Private Limited:

In September 2016, SamunnatiAgro was incorporated as a wholly owned subsidiary of Samunnati Finance Intermediation & Services P Ltd. 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.



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Financials (Consolidated basis)

(Rs. In Crore)

For the year ended / As on*	31-03-2020 (IGAAP) (Audited)	31-03-2021 (Ind-As) (Provisional)
Total Operating Income	726.63	921.56
EBITDA	66.01	75.39
PAT	11.94	(6.61)
Total debt	518.90	880.55
Tangible Networkth	492.57	480.96
PAT margins (%)	1.64%	(0.72%)
EBITDA margins (%)	9.09%	8.18%
Overall Gearing Ratio (x)	1.05x	1.83x
Gross NPA (%)	3.67%	4.79%
Total assets	995.34	1276.7

*classification as per Infomerics standard

Status of non-cooperation with previous CRA: Nil

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Mar 25, 2021)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund based Facilities–Term Loan	Long Term	5.00	IVR BBB+/Stable	IVR A- /Stable Outlook	-	-
2.	Fund based Facilities	Short Term	50.00	IVR A2	IVR A2+	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Prakash

Tel: (011) 24655636

Email: rprakash@infomerics.com

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



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

Annexure 2: List of companies considered for consolidated analysis: Not Applicable



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Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lender-SSPL-27-09-21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan	Simple
2.	Working Capital Loan	Simple

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.