Press Release

Sara International Pvt Ltd.

November 01, 2017

Ratings

Instrument / Facility	Amount	Rating	Rating Action
Long-Term/Short TermFund based facilities- Cash Credit/PCFC/PSCFC	Rs.70.00	IVR BB-/Stable Outlook and IVR A4 (IVR Double B Minus with Stable Outlook and IVR A Four)	Assigned
Short Term Non-fund based facilities- LC/BG/Buyer's Credit	Rs.96.00 (incl. proposed limits of Rs.26 crore)	IVR A4 (IVR A Four)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sara International Pvt Ltd (SIPL)take into account the liquidity stress in the company reflected in overdrawals in CC Account in the past, weak profitability and weak networth position; albeit is likely to be improved post sale of its stake in Gopalpur Port Limited. The ratings are further constrained by susceptibility to price fluctuations in the traded commodities and competitive & fragmented nature of the industry.

The ratings however, derive strength from the experience of the promoters in the trading industry, modest scale of operations and long standing established relationships with its customers and suppliers.

Improvement in profitability margins, liquidity management and timely servicing of debt facilities remain the key rating sensitivities.

List of Key Rating Drivers

- Liquidity stress reflected in regular overdrawals in CC Account in the past.
- Weak Profitability
- Weak networth position; albeit is likely to improve post sale of stake in Gopalpur Port Limited

- Susceptibility to price fluctuations of traded commodities
- Competitive & fragmented nature of industry
- Experience of Promoters
- Modest scale of operations
- Established relationships with customers and suppliers

Detailed Description of Key Rating Drivers

Key Rating Weaknesses:

Liquidity Stress reflected in overdrawals in CC Account

The company has CC facility from PNB and Corporation Bank to the tune of Rs.50 crore and Rs.20 crore respectively. However, there have been regular instances of overdrawals beyond the sanctioned limit in PNB over the past one year.

This indicates liquidity stress in the company. However, with the divestment of stake in Gopalpur Port Limited, the liquidity position has improved as reflected in low average CC utilisation from June 2017 onwards.

Weak profitability margins

The company is a pure trading entity that deals majorly in ores and minerals alongwith agro products as well as textile fabric & machinery. They procure the materials from the primary producers and sell them to their customers. During FY17, the company achieved an EBITDA margin of 2.84% after posting negative margin in the previous years.

Weak Networth position coupled with substantial amount of debt outstanding; albeit is likely to be improved post sale of stake in Gopalpur Port Trust

As on March 31, 2017, the stated networth of the company stood at Rs.76.84 crore. However, post elimination of cumulative revaluation gains of Rs.124.34 crore, the adjusted networth stood at negative Rs.47.50 crore. As on the same date, the company had substantial debt to the tune of Rs.127.56 crore, comprising mainly of bank borrowings.

Further, the company has extended a corporate guarantee in favour of the bank on behalf of Sara Textiles Ltd of Rs.123.51 crore as on March 31, 2017.

The company's debt protection metrics remained weak as on March 31, 2017 characterized by interest coverage ratio of 0.68x.

However, divestment of stake in Gopalpur Port Limitedwould improve the networth position of the company.

Competitive and fragmented nature of industry

The metal related trading business is highly fragmented with several players in the market resulting in the company facing fierce competition. The pricing power of the group is low given that volume discounts offered by the companies and the credit period extended to its customers being the only tools to attract and retain customers.

Susceptibility to price fluctuations

The company is susceptible to fluctuations in the price of the products that they trade in. The prices of these commodities can be volatile and linked to the London Metal Exchange (LME).

Key Rating Strengths

Experienced promoters

SIPL's management rests in the hands of Mr.Devinder Pal Singh,Chairman and Managing Director, Mr Deepit Singh, Director and Mr Tushar Singh, Director.Mr. Devinder Pal Singh has been associated with the company for more than 25 years. He holds a post graduate in Economics from the Punjab University alongwith a diploma from the Indian Institute of Foreign Trade, New Delhi. Mr. Deepit Singh has been associated with the company for more than 13 years. He has a Masters in Business Administration with specialization in Finance from the Indian School of Business, Hyderabad and a Bachelors in Mechanical engineering from the University of Wisconsin-Madison. Mr. Tushar Singh has been associated with the company for more than 11 years. He has has a post-graduate degree in Business Management from Judge Business School, University of Cambridge and is a Bachelor of Science in Business Studies from London. The management is assisted by a team of experienced professionals in handling the day to day activities of the business.

Modest Scale of operations

The company has been able to generate gross sales revenue of Rs.411.65 crore during FY17, down from Rs.508.54 crore for FY16, mainly on account of imposition of CVD on sugar, which made SIPL cease trading in the same, however the scale of operations continues to remain moderate.

Long standing relationship with suppliers and customers with moderate concentration risk

SIPL has developed and maintained relations with its key customers and suppliers in the metal related trading business over the years. Further, the top 10 customers and suppliers contribute about 48% and 52% to the total sales and purchases, resulting in moderate concentration risk for the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition and Post-Default Curing Period

<u>About the Company</u>

Incorporated in 1973, Sara International Pvt Ltd (SIPL) is a part of the Sara Group, which is majorly engaged in bulk trading of metal related commodities such as chrome ore lumps, zinc, manganese and steel along with agro commodities. The company has established its presence in China& Albania in the past few years for the procurement & supply of Albanian Chrome, which is required in steel production through its quality teams in representative offices. During FY17, SIPL earned almost 47% of its revenue from trading in chrome ore lumps, whereas in FY16 Agro Products (mainly sugar) contributed 57% to its topline. The company has ceased trading in agro commodities, owing to the imposition of Counterveiling Duty (CVD) on sugar. As per the discussion with the management, it plans to continue trading in metal related products only to a major extent henceforth. Further, it also trades in textile fabrics and machinery to a small extent. Its subsidiary Sara Textiles Limited, with its manufacturing facility located at Nalagarh, Himachal Pradesh is mainly engaged in the manufacture of terry towels and trades in bath mats and bed sheets.

Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	512.37	415.12

Stated PAT	0.81	2.01
Adjusted PAT	-21.40	-7.08
Total Debt	118.30	127.60
Long Term Debt	6.90	2.70
Stated Networth	78.83	76.84
Adjusted Net worth	-48.00	-47.50
Adjusted PAT Margin	-4.19	-1.71

*The above financials have been computed post elimination of revaluation gains
Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long-term/Short-term fund based facilities- Cash Credit/PCFC/ PSCFC	Long Term/ Short Term	70.00	IVR BB-/Stable Outlook and IVR A4 (IVR Double B Minus with Stable Outlook and IVR A Four)	--	--	--
2.	Short-term Non-fund based facilities- LC/BG/Buyer's Credit	Short Term	96.00 (incl. proposed limits of Rs.26 crore)	IVR A4 (IVR A Four)	--	--	--

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/Short Term Fund Based Limits	--	--	--	70.00	IVR BB-/Stable Outlook and IVR A4 (IVR Double B Minus with Stable Outlook and IVR A Four)
Short Term Non Fund Based Limits	--	--	--	96.00 (including proposed limits of Rs.24 crore)	IVR A4 (IVR A Four)