Press Release

Sri Sainath Industry Private Limited

January 03, 2024

Ratings

Instrument/ Facility	**Amount (Rs. Crore)**	**Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Bank Facilities	11.15	IVR BBB/ Negative (IVR Triple B with Negative outlook)	Reaffirmed with change in rating outlook from Stable to Negative	Simple
Short Term Bank Facilities	95.00 (including proposed limit of 0.50) (enhanced from 70.00)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**106.15 (Rs. One Hundred-Six crore and Fifteen lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Sri Sainath Industry Private Limited (SSIPL) considers the common management team and operational & financial linkages between SSIPL and its group concerns Bhagwati Industries (BI) and Sri Sainath Agri Industries Private Limited (SSAI). Infomerics has taken a combined view of these entities referred together as Sainath Group (SNG). The ratings assigned derive strength from the vast experience of the management and established track record of operations, continuous increase in the scale of operations, satisfactory capital structure and interest coverage ratio, moderate working capital cycle and steady demand outlook for rice. However, these ratings strengths are partially constrained due to the susceptibility to agro climatic risk, regulatory risk and forex fluctuation risk, thin profit margins due to trading nature of operations, risks associated with the entity's status as a partnership firm, intense competition in domestic and export market and export ban on non-basmati rice.

Revision in outlook was based on recent development in rice export policy by Government of India which leading to uncertainty in related industry.

Rating Sensitivities

Upward factors

- Sustained revenue growth coupled with improvement in profitability on a sustained basis
- Growth in cash accrual and prudent working capital management

- Improvement in capital structure

Downward Factors

- Any decline in revenue and profit margin on a sustained basis
- Further moderation in the capital structure
- Deterioration in debt protection metrics and Total debt/GCA.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Vast experience of the management and established track record of operations**

The promoters of the group, Mr. Rohit Agrawal and Mr. Anand Kumar Agarwal have more than three decades of experience in rice milling and trading. The group has forward integrated and installed a solvent plant which will improve the business risk position of the group further. Infomerics believes the long track record of operations and experience of management has helped the company to develop a healthy relationship with its customers and suppliers and will continue to support the business over the medium term.

- **Continuous increase in the scale of operations**

The scale of operations of the group has been increasing at a CAGR of 16% during last three financial years ending in FY23 to ~Rs.995 crore in FY23 as against ~Rs.737 crore in FY21. There has been high export demand of non-basmati rice as prices are significantly cheaper in India than other countries like Thailand and Malaysia. Majority of the group's revenue is generated from exports.

- **Satisfactory capital structure and interest coverage ratio**

The group's adjusted net worth as on March 31, 2023, consist of subordinated unsecured loans aggregating to Rs. 16.20 crore from the promoters which is considered as quasi equity. Considering the same the adjusted tangible net worth of the group stood at Rs.150.92 crore as on March 31, 2023 compared with Rs. 133.13 crore as on March 31, 2022. Increase in Net Worth coupled with repayment of term loans, leading to further improvement in overall gearing ratio to 0.83x as on March 31, 2023, compared to 1.03x as on March 31, 2022. Interest coverage ratio was satisfactory 2.75x in FY23 and Total Outside Liability on Total Adjusted Net Worth was comfortable at 1.44x as on March 31, 2023.

- **Moderate working capital cycle**

The moderate working capital management of the group is marked by working capital cycle of 71 days in FY23, though it increased from 66 days in FY22. The debtor period was 56 days in FY23 as compared to 54 days in FY22. The inventory holding stood efficient at 36 days in FY23 as compared to 26 days in FY22. The group maintains minimum inventory as their manufacturing units are located to the close vicinity of rice producing area. Infomerics believes that the working capital operations of the group will remain at similar levels as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

- **Steady demand outlook for rice**

India has been the top exporter in global rice trade, accounting for more than 20% of the export in the last few years. Indian rice caters to the Middle East and Africa for non-Basmati, and the EU and the US for Basmati variety. With the increasing demand for rice globally, the exports are increasing from India. India being the second largest producer of rice holds a key position in the rice export market and the Indian rice exporters like the Apical group is expected to benefit further.

Key Rating Weaknesses

- **Susceptibility to agro climatic risk, regulatory risk and forex fluctuation risk**

The group derives 80-85% of its revenue from exports to Middle East countries such as Saudi Arabia and Dubai along with African countries. As a result the group's revenue profile is exposed to regulatory risk arising from changes in other countries' procurement policies. Further, profitability is susceptible to government policies such as minimum support prices in the domestic market. Increase in minimum support price coupled with any adverse movement in forex rates can impact the price competitiveness vis-a-vis other rice exporting countries. Thus, the volatility in prices is an inherent risk for the company that can affect its revenue and profitability profile. Since paddy is an agro commodity, the group is also exposed to agro climatic risks.

- **Thin profit margins due to trading nature of operations**

The profitability of the group remained thin over the years mainly due to low value additive trading nature of one of its companies-SSIPL. Profitability has further moderated in FY23 with the increase in procurement costs of raw material and trading material, where EDITDA margin was at 3.61% and PAT margin was at 1.53% at the end of FY23.

- **Risks associated with the entity's status as a partnership firm**

Bhagwati Industries, being a partnership firm is exposed to the risk of capital withdrawals by the partners and extent of withdrawal going forward will remain a key monitorable.

- **Intense competition in domestic and export market**

Trading of non-basmati rice segment is highly competitive marked by presence of many organised and unorganised players in the domestic as well as in the export market. Low entry barriers coupled with low technologies requirement makes the trading operations vulnerable and limits the pricing flexibility.

- **Export ban on non-basmati rice**

Since July 2023, Government of India has imposed a ban on export of non-basmati white rice. India, the world's largest rice exporter, banned the exports of non-basmati white rice on July 20, 2023, as the government sought to tame surging domestic food prices and ensure adequate domestic availability at reasonable prices. Later on since August 2023, Government of India has also imposed an additional 20% export duty of export of Parboiled rice to limit the price inflation of rice in domestic market.

Analytical Approach: Consolidated Approach

For arriving at the ratings, Infomerics has combined the business and financial risk profiles of Sri Sainath Industry Pvt. Ltd (SSIPL), Bhagwati Industries (BI) and Sri Sai Nath Agri Industries Private Limited (SSAI). This is because these companies, collectively referred to as the Sainath Group, are under control of same promoters, have business and financial linkages.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity: Adequate

SNG has earned a gross cash accrual of Rs. 21.24 crore in FY23. Further the group is expected to earn a gross cash accrual in the range of ~Rs.41-55 crore as against its debt repayment obligations in the range of ~Rs.7 to 11 crore per year during FY24-26. Accordingly, the liquidity position of the company is expected to remain adequate with the moderate level of repayment obligation in the near to medium term. Further, average cash credit utilisation of the company remained low at ~60% during the past 12 months ended November 2023 indicating a adequate liquidity cushion.

About the Company and the Group

Sainath Group is a Raipur based group promoted by the Agarwal family. The group was started by Mr.Rameshwar Das Agarwal in 1990. The Agarwal family has long presence in the rice industry. Sainath group is engaged in rice milling and rice trading. The flagship entity of the group is Sri Sainath Industry Private Limited (SSIPL) which was incorporated in 2007 is an exporter of non-basmati rice. The company procures rice from the local players and the Group entities and exports to different countries of Asia and Africa.

Financials (Combined): **(Rs. crore)**

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	980.93	995.03
EBIDTA	55.37	35.95
PAT	29.83	15.35
Total Debt	146.54	132.62
Tangible Net Worth	110.88	127.54
EBDITA Margin (%)	5.64	3.61
PAT Margin (%)	3.03	1.53
Overall Gearing Ratio (x)	1.44	1.17
Adjusted Overall Gearing Ratio (x)	1.03	0.83

*Classification as per Infomerics' standards

Financials (Standalone):SSIPL **(Rs. crore)**

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	576.84	360.06
EBIDTA	28.43	4.59
PAT	19.54	1.65
Total Debt	61.03	49.16
Tangible Net Worth	63.95	65.60
EBDITA Margin (%)	4.93	1.28
PAT Margin (%)	3.38	0.46
Overall Gearing Ratio (x)	0.95	0.75
Adjusted Overall Gearing Ratio (x)	0.95	0.75

*Classification as per Infomerics' standards

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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Oct 21, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Term loans (GECL)	Long Term	11.15	IVR BBB / Negative	IVR BBB/ Stable	-	-
2	Running Packing Credit/ PCFC	Short Term	75.00	IVR A3+	IVR A3+	-	-
3	EPC	Short Term	19.50	IVR A3+	IVR A3+	-	-
4	Proposed ST Loan	Short Term	0.50	IVR A3+	IVR A3+	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term loan (GECL)	-	-	Nov 2026	11.15	IVR BB/ Stable
Running Packing Credit/ PCFC	-	-	-	75.00	IVR BB/ Stable
EPC	-	-	-	19.50	IVR BB/ Stable
Proposed ST Loan	-	-	-	0.50	IVR BB/ Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Sri Sainath Industry Private Limited	Full consolidation
Bhagwati Industries	Full consolidation
Sri Sainath Agri Industries Private Limited	Full consolidation

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Sainath-jan24.pdf

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

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.