Press Release

Sanskar Agro Processors Pvt. Ltd.

September 30, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	33.23 (enhanced from Rs.30.24)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Revised from IVR BBB-/ Stable (IVR Triple B Minus)	Simple
Short Term Bank Facilities	2.75	IVR A3+ (IVR A Three Plus)	Revised from IVR A3 (IVR A Three)	Simple
Total	**35.98 (Rupees Thirty Five crore and Ninety Eight lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Sanskar Agro Processors Pvt. Ltd. (SAPPL) factors in the improvement in its financial risk profile in FY22 and Q1FY23. The ratings continue to derive strength from the experience of its promoters, location advantage with presence in the cotton growing area of Maharashtra. The rating strengths are, however, partially offset by the presence of the company in a highly competitive industry, susceptibility of its margins to fluctuations in cotton prices, and exposure to agro-climatic risk and government regulations.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the total operating income by more than 10%.
- Sustained improvement in EBITDA margin exceeding 7% leading to improvement in cash accruals and liquidity position

Downward Factors

- Any decline in revenue and profitability leading to deterioration in debt protection metrics.

- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

SAPPL was incorporated in 2003 and has a track record of around 19 years in cotton ginning and spinning. Mr. Pawan Singhania (Managing Director) has around three decades of experience in the textile industry. The promoters' experience has helped the company to maintain healthy and long-standing relations with the customers and suppliers.

Location advantage

SAPPL's manufacturing unit is located in the rich cotton growing region of Vidarbha (Maharashtra). Ginning and pressing manufacturing process is simple and skilled workers are easily available in Wardha district and nearby places. No additional technical know-how is required. Cotton is one of the prime agricultural crops of Wardha district. SAPPL procures the same through APMC/ directly from the farmers. The manufacturing units have all the infrastructure facilities like power, water, transportation etc.

Improvement in financial risk profile in FY22 and Q1FY23

SAPPL's total operating income (TOI) has grown by 53% in FY22, from Rs.151.24 crore in FY21 to Rs.232.59 crore in FY22 mainly due to the high demand for its product from existing customers coupled with addition of new customers. During the period FY19-22, TOI has increased at a CAGR of 17.90% from Rs.141.93 crore in FY19 to Rs.232.59 crore in FY22. In Q1FY23, SAPPL reported TOI of Rs.90.03 crore as against Rs.50.08 crore in Q1FY22, an increase of around 80%.

SAPPL's profitability margins continue to remain almost stable over the years. EBITDA margin increased from 5.76% in FY20 to 6.66% in FY21 mainly due better average sales realisation. With the cotton prices rising, the EBITDA margin stabilised around 5.55% in FY22. However, PAT margin has improved from 1.56% in FY21 to 2.02% in FY22 in line with TOI, while GCA improved from Rs.6.59 crore in FY21 to Rs.8.73 crore in FY22.

SAPPL's capital structure continued to remain moderate. Overall gearing of SAPPL has improved marginally from 1.71x as on March 31, 2021 to 1.59x as on March 31, 2022 due to repayment of term loan. TOL/TNW remained at similar level i.e. 1.89x as on March 31, 2021 and 1.85x as on March 31, 2022. Interest coverage ratio improved from 2.82x in FY21 to 4.03x in FY22 due to decline in interest cost and increase in EBITDA from Rs.10.07 crore in FY21 to Rs.12.91 crore in FY22. Further, total debt to GCA ratio improved from 7.19x in FY21 to 5.78x in FY22 due to improvement in GCA.

Key Rating Weaknesses

Presence in a highly competitive industry

The textile industry in India is highly fragmented with presence of many established players in the market. The company has to compete with established brands in the market, as well as the unorganized players. The high competition has a bearing on its margins.

Susceptibility of its margins to fluctuations in cotton prices, and exposure to agro-climatic risk and government regulations

Raw cotton prices are highly volatile in nature and are largely dependent on factors such as area under cultivation, crop yield, international demand-supply scenario, export quota decided by the government and inventory carry forward of the previous year. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company's liquidity is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its debt repayment obligations. The company has managed its working capital requirements prudently and implemented an effective receivables management system over the years, resulting in an improvement in the average collection period from around 40 days in FY19 to 8 days in FY22. The company maintains about 2.5-3 months of inventory to manage variations in the cotton price and to ensure steady supply of its products. With purchases being either on cash basis or at miniscule credit of 30 days from suppliers, its average creditor days was around 6 days in FY22. Accordingly, SAPPL's operating cycle stood at 77 days in FY22 as against 84 days in FY21. The working capital requirement of the company is mainly funded through bank borrowings and unsecured loan from promoters (unsubordinated). The company's average working capital utilization of the sanctioned bank limits was moderate at 56.06% during the 12 months ended August 2022. Additionally, the company does not have any capex plans during FY23-25.

About the company

SAPPL was incorporated in the year 2003. The company is promoted by Mr. Pawan Ramgopal Singhania and Mr. Kailash Ramgopal Singhania. SAPPL started its operations with a ginning unit, and later on started the spinning unit as forward integration and an oil extraction unit as backward integration for the ginning activities. The company is currently engaged in ginning and pressing of cotton, manufacturing of cotton yarn (both combed and cared for knitting and weaving), crushing cotton seeds into seed oil and seed cakes. The company is also engaged in processing dal, wherein it processes raw dal (chana dal, toor dal and gram dal) by cleaning, de-stoning, rotary grader, colour sorting etc. The company's manufacturing units are located in the rich cotton growing region of Vidarbha (Maharashtra).

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	151.24	232.59
EBITDA	10.07	12.91
PAT	2.37	4.71
Total Debt	47.34	50.45
Tangible Networth	27.63	31.75
Ratios		
EBITDA Margin (%)	6.66	5.55
PAT Margin (%)	1.56	2.02
Overall Gearing Ratio (x)	1.71	1.59

*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 Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (August 2, 2021)	Date(s) & Rating(s) assigned in 2020-21 (July 24, 2020)	Date(s) & Rating(s) assigned in 2019-20 (May 27, 2019)
1.	Term Loan	Long Term	6.73	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable
2.	Cash Credit	Long Term	26.50	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable
3.	Non-Fund Based Facilities	Long Term	-	-	-	IVR BBB-/ Stable	IVR BBB-/ Stable
4.	Inland Letter of Guarantee	Short Term	2.75	IVR A3+	IVR A3	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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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
Term Loan	-	-	March 2029	6.73	IVR BBB/ Stable
Cash Credit	-	-	-	26.50	IVR BBB/ Stable
Inland Letter of Guarantee	-	-	-	2.75	IVR A3+

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Sanskar-Agro-sep22.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.