



Press Release

Shree Ram Proteins Limited

April 22, 2021

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	37.15	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	0.10	IVR A4+ (IVR Single A Four plus)	Assigned
Total	37.25 (Thirty seven crores and twenty five lakhs)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to bank facilities of Shree Ram Proteins Limited factor in the extensive experience the promoters in the solvent extraction industry, location benefits given the presence in the key cotton growing region of the country, and comfortable debt metrics. However, rating is constrained on account of high geographic concentration of operations, low operating margins given the limited value addition as also elongated operating cycle. Further, the ratings also factor in the company's presence in a highly competitive industry coupled with agro climatic risks which may have a bearing on its revenues and profitability, threat from imports and cheaper substitutes as also vulnerability to regulatory changes.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in revenue & profitability leading to improvement in overall debt protection metrics.
- Equity infusion by the promoters

Downward Factors

- Any substantial decline in revenue and/or profitability as also elongation in working capital cycle leading to stretch in the debt levels and debt protection metrics.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience the promoters in the solvent extraction industry** - The promoters Mr. Lalitkumar Chandulal Vasoya, Mr. Lavjibhai Valjibhai Savaliya, and Mr. Piyush Chandulal Vasoya have more than 10 years of experience in the solvent extraction industry which has helped the company to maintain strong relations with its customers as well as with its suppliers.
- **Location benefits given the presence in the key cotton growing region of the country, moderate customer concentration** – The company's manufacturing unit is located in Rajkot, Gujarat which is a key cotton growing region of the country imparting location benefits as far as the raw material availability is concerned. The company's customers also remain in the vicinity of the company providing logistic advantage. The customer concentration remained moderate in FY2020 at 45%.

Comfortable debt metrics: The company in FY2020 has reported comfortable debt metrics as reflected in long term debt to equity ratio of 0.22 times, overall gearing at 0.87 times, TOL/TNW of 1.22 times, long term debt/GCA of 2.65 years, interest coverage at 2.29 times, and DSCR of 1.92 times during FY2020.

Key Rating Weaknesses

- **High geographic concentration** – With sales mostly concentrated in the state of Gujarat, the company faces high geographic concentration. The state contributed 89% of revenues in FY2020 while < 5% sales were contributed by Maharashtra.
- **Declining scale of operations in past fiscals**– The turnover has declined significantly from Rs. 195.50 Cr during FY2018 to Rs 158.14 Cr during FY2019, however it reported revenues of Rs. 155.90 Cr during FY2020. While the cotton seed and cotton seed cake sale volumes improved in FY2020, cotton wash oil sales have declined in the same period. The sales realisations of cotton seed and wash oil have marginally improved in



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FY2020 as compared to FY2019, seed cake realisations have declined in the same period given adequate availability. The company, however, has reported revenues of Rs. 72.13 crore in 9MFY2021 though it is expected to close the fiscal with revenues at Rs. 152.62 crore.

- **Low operating margins given the limited value addition; elongated operating cycle on high yearend inventory and stretched debtor position** – The low value add nature of operations has resulted in operating margins at around 4 - 5% in the past. Subsequently, the net profit margins have also remained thin. The company had an elongated working capital cycle as reflected in operating cycle of 181 days in FY2020 on account of high collection period of 104 days and inventory days of 108 days inherent to seasonal nature of the business causing stress on the cash credit facility.
- **Highly competitive Industry with agro climatic risk** - The industry is highly competitive and fragmented industry because of several organised and unorganised players. For cotton and mustard seed oil extraction, the main raw material is a seasonal crop and production of the same is highly dependent on the monsoon. Thus, any adverse weather condition like inadequate monsoon may affect the availability and that will impact the financial risk profile of the company.
- **Threat from imports and cheaper substitutes; vulnerable to Government policy changes related to import duties** – Regulatory changes like import duty structure and minimum support price amendments have a bearing on the profitability of solvent extraction units. Further, price movements as well as demand of other oilseed products influence the company's revenue growth and profitability.
- **Exposure to stiff competition in edible oil industry** – The edible oil industry in India is characterised by intense competition and fragmentation with many units operating in the field, given the low entry barriers in the business. The same limits the pricing power and, hence its operating profitability.

Analytical Approach: Standalone



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Stretched

The company's liquidity remains stretched characterised with limited cash balance of Rs.0.78 crore as on March 31,2020 as also full working capital utilisation in FY2021. Limited repayments in FY2022 and FY2023, absence of debt funded capex however provides some comfort. Promoter support remains crucial as far as the liquidity is concerned. The gross cash accruals remained at Rs. 3.69 Cr during FY2020.

About the Company

Incorporated in 2008, the Rajkot, Gujarat based Shree Ram Proteins Limited ('SRPL or the company) is primarily involved in cotton seed extraction. The company is also engaged in trading of cotton bales, cotton seed cakes, oil rice bran, and soya beans among others and occasionally mustard seeds. The company is promoted by Lalitkumar Chandulal Vasoya, Lavjibhai Valjibhai Savaliya, and Piyush Chandulal Vasoya. SRPL manufacturing product basket includes cotton oil and cotton seed cake, derived from cotton seeds while mustard seed products include mustard seed oil. Apart the NSE listed company also sells the other by products which includes oil cake, seeds, and beans.



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Financials (Standalone): (INR Crore)

For the year ended / As on	31-03-2018	31-03-2019	31-03-2020*
	A	A	A
Total Operating Income	195.50	158.14	155.90
EBITDA	7.83	9.04	7.76
PAT	1.81	3.34	2.61
Total Debt	46.68	41.98	39.52
Adjusted Tangible Net worth	55.62	47.66	50.78
Ratios			
EBIDTA Margin	4.00	5.72	4.98
PAT Margin	0.93	2.11	1.67
Overall Gearing ratio	1.18	0.98	0.87

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (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.	Term loan	Long term	6.15	IVR BB+/Stable	-	-	-
2.	Cash credit	Long term	31.00	IVR BB+/Stable	-	-	-
3	Bank Guarantee	Short term	0.10	IVR A4+	-	-	-

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:

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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, 2025	6.15	IVR BB+/Stable
Cash credit	-	-	-	31.00	IVR BB+/Stable
Bank Guarantee	-	-	-	0.10	IVR A4+



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Annexure 2: Facility Wise Lender Details

<https://www.infomerics.com/admin/prfiles/lender-srpl-22-apr-21.pdf>

