

**Sara International Private Limited**

**February 11, 2019**

**Rating**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Current Rating</b>	<b>Rating Action</b>
1.	Long-Term/Short Term Fund based facilities- Cash Credit/PCFC/PSCFC	70.00	IVR BB+ / Stable Outlook and IVR A4+  (IVR Double B Plus with Stable Outlook and IVR A Four Plus)	Revised from 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	70.00	IVR A4+ (IVR A Four Plus)	Revised from IVR A4 (IVR A Four)
	<b>Total</b>	<b>140.00</b>		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The revision in rating draws comfort from the extensive experience of its promoters, significant improvement in net worth and substantial liquid assets to meet any unforeseen risks. These strengths are partially offset by low profitability margins in a competitive and fragmented industry, moderate customer and supplier concentration risk and modest debt protection metrics. Improvement in scale of operations and profitability and debt protection metrics are the key rating sensitivities.

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

*Experienced promoters*

SIPL's management rests in the hands of Mr.Devinder Pal Singh, who has been associated with the company for over 25 years. He holds a post graduate degree in Economics from Punjab University along with a Diploma from the Indian Institute of Foreign Trade, New

Delhi. He is assisted by a team of well qualified and experienced professionals in handling the day to day operations of the business.

### ***Significant improvement in net worth and TOL/TNW***

The net worth of the Company exhibited significant improvement to Rs.112.73crore as on March 31, 2018 as against Rs.76.84crore as on March 31, 2017. This can be attributed to the increase in accretion to reserves on the back of income driven by sale of shares of Gopalpur Ports Limited in FY18. The improvement in net worth has also resulted in improvement in TOL/TNW ratio as reflected in TOL/TNW of 1.52x as on March 31, 2018 as against 5.62x as on March 31, 2017.

### ***Substantial liquid assets to meet unforeseen demands***

SIPL had gross investments to the tune of Rs.87.98crores (unencumbered investment of Rs.11.4crore) in equity shares and mutual funds, as on March 31, 2018 which can be used to meet unforeseen risks. This provides some amount of liquidity comfort to the Company.

## **Key Rating Weaknesses**

### ***Moderate concentration risk***

SIPL is exposed to moderate customer and supplier concentration risk. The top ten customers and suppliers contribute about 51% and 48% to the total sales and purchases respectively.

### ***Low profitability margins***

The company is a pure trading entity that deals majorly in resources like ore and minerals along with agro products as well as textile fabric & machinery. They procure the materials from the primary producers and sell them to their customers. During FY18, the Company posted negative EBIDTA margin due to one-time diminution in the value of old iron ore stocks for which the PBT Margin before sale of shares also remained negative.

## *Competitive and fragmented nature of industry*

The trading business is highly fragmented with several players in the market resulting in the company facing fierce competition. The pricing power of SIPL 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.

## *Modest debt protection metrics*

SIPL has registered improvement in its Total debt/GCA as reflected in Total Debt/ GCA of 5.69x as on March 31, 2018 as against 36.94x as on March 31, 2017 driven by significant increase in GCA on the back sale of shares of Gopalpur Ports Limited in FY18. However, the interest coverage ratio remained negative on account of negative EBITDA posted during the year. The increase in GCA in FY18 was on account of one time transaction and the debt protection metrics are likely to remain modest over the medium term.

## **Analytical Approach & Applicable Criteria:**

Rating methodology on trading companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

## **Liquidity**

SIPL's bank limits remained moderately utilized over the twelve months through September 2018. Further, the Company is expected to generate sufficient accruals going forward against its repayment obligations. Liquidity is further supported by investments in equity shares and mutual funds to the tune of Rs.11.4crore (unencumbered investment) respectively as on March 31, 2018.

**About the Company**

Incorporated in 1973, Sara International Pvt Ltd (SIPL) is a part of the Sara Group. The Company is engaged in bulk trading of resources such as chrome ore lumps, zinc, manganese and steel along with agro commodities. Apart from these, it also trades in textile fabrics and sewing machines. SIPL is also engaged in trading/sales of immovable properties.

**Financials (Standalone):**

	(Rs. crore)	
For the year ended*	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	413.21	375.12
PAT	2.01	35.89
Total Debt	127.56	123.36
Tangible Net worth	76.84	112.73
PAT Margin (%)	0.47	7.66
Overall Gearing Ratio (x)	1.66	1.09

\*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 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term/ Short Term Fund Based Limits – Cash Credit/PCFC/PSC FC	Long Term and Short Term	70	IVR BB+ / Stable Outlook and IVR A4+	November 01, 2017 IVR BB- /Stable Outlook and IVR A4	-	-
2.	Short Term Non-fund based facilities-LC/BG	Short Term	70	IVR A4+	November 1, 2017 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](http://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.

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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/ Short Term Fund Based Limits – Cash Credit/PCFC/PSCFC	-	-	-	70	IVR BB+ / Stable Outlook and IVR A4+
Short Term Non-fund based facilities-LC/BG	-	-	-	70	IVR A4+