

**Press Release**

**Smartha Enterprises Pvt Ltd.**

**August 22, 2018**

**Ratings**

<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating Assigned</b>	<b>Rating Action</b>
Fund Based Facilities	1.50	IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
Non-Fund Based Facilities	15.00	IVR A4+ (IVR A Four Plus)	Assigned
Proposed Fund Based/Non-Fund Based Facilities	0.50	IVR BB+/ Stable Outlook/IVR A4 Plus (IVR Double B Plus with Stable Outlook/ IVR A Four Plus)	Assigned

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The ratings derive strength from the experienced management who have demonstrated their support by timely infusing unsecured loans to support operations of the company, established relationship with suppliers and customers, order backed nature of business, improving capital structure and debt protection metrics and comfortable liquidity profile. The ratings, however, are tempered by small scale of operations, thin profitability margins, volatility related to foreign exchange fluctuations, concentration risk and fragmented nature of industry which is volatile to price fluctuations. Profitability, leverage and growth in scale of operation are the key rating sensitivities.

**List of Key Rating Drivers**

- *Experienced management*
- *Support in the form of unsecured loans*
- *Established relationship of the group with suppliers and customers*
- *Order backed nature of business*
- *Improving capital structure and debt protection metrics*
- *Comfortable Liquidity Profile*
- *Steady demand prospects of edible oil industry*

- *Small Scale of Operations*
- *Thin Profitability Margins*
- *Exposure to risk of foreign exchange fluctuation*
- *Concentration Risk*
- *Highly fragmented industry and volatility in international edible oil prices*

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths:

##### *Experienced management*

The promoter of the company, Mr. Varun Gupta has an experience of about 7 years in the edible oil trading industry. The promoters are assisted in the day-to-day operation by a team of professionals having relevant industry experience.

##### *Support in the form of unsecured loans*

The promoters have demonstrated their support towards the company by infusing funds continuously in the form of interest free unsecured loans to support the operations.

##### *Established relationship of the group with suppliers and customers*

The group has been engaged in trading of edible oils for about 7 years which has enabled it to develop relations with its customer and supplier base.

##### *Order backed nature of business*

The company generally engages in trading based on back-to-back orders from their customers and suppliers which reduces price volatility risk. With respect to purchases, the entity opens a 180 days Letter of Credit in favour of suppliers. Meanwhile, it generally gives credit to its customers of a similar period, resulting in minimal funds being blocked in working capital.

##### *Improving capital structure and debt protection metrics*

SEPL has a moderate capital structure marked by an overall gearing ratio of 0.55x as on March 31, 2018 which has improved from 1.01x as on March 31, 2017. The capital structure has improved on account of reduction in the company's fund based facilities which it had

utilized in FY17 for taking advantage of pricing in terms of lower finance expense. The company's debt protection metrics are moderate marked by Total Debt to GCA of 3.97x as on March 31, 2018. Interest coverage ratio was comfortable at 4.49x in FY18

### ***Comfortable Liquidity Profile***

The company generally relies on its LC facility and does not utilize its fund based CC facility. Further, the company generally does not carry any inventory and has back to back orders due to which minimal funds get blocked in working capital.

### ***Steady demand prospects of edible oil industry***

The edible oil production in India has remained stagnant over the years, which is insufficient to fulfill the domestic requirements of edible oil. Consequently, the country's dependence on imports has increased over the years and currently around 65-70% of the domestic edible oil requirements are met through imports. The same provides ample growth opportunities to traders like SEPL to scale-up the business though stiff competition exists.

### **Key Rating Weaknesses:**

#### ***Small Scale of Operations***

The company has a small scale of operations reflected in terms of a topline of Rs.52.61 crore during FY18 and PAT of Rs.0.31 crore.

#### ***Thin Profitability Margins***

The company is purely into trading of edible oils. As is inherent in a trading entity, the profitability margins are thin as reflected in EBITDA margin of 3.14% and PAT margin of 0.59% during FY18. Although the same has been improving over the past few years, it is low.

#### ***Exposure to risk of foreign exchange fluctuation***

The company is exposed to risk of adverse movement in foreign exchange. The company generally imports from countries like Singapore, Malaysia & UAE while sales to counterparties in India are made on high sea basis. The company generally deals in USD with respect to purchases, whereas the sales are generally made in rupee. As the entity operates on a back to back arrangement, this risk is mitigated to a large extent. Further, the entity has obtained Forward Cover facility for about 85-90% of the exposure which also reduces the risk to some extent.

## ***Concentration Risk***

Although the company is engaged in trading and has established relations with many customers, the company's top 10 customers contribute around 93% of the total sales during FY18 reflecting customer concentration risk for the company.

## ***Highly fragmented industry and volatility in international edible oil prices***

The edible oil industry is highly fragmented with presence of numerous small players and low entry barriers. Moreover, palm oil prices are majorly influenced by the demand and supply situation in Indonesia and Malaysia and regulations in those countries. The company largely operates on back-to-back purchase and sales order basis; hence, mitigating the price risk to an extent.

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

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition & Post-Default Curing Period

## **About the Company**

Smartha Enterprises Pvt Ltd (SEPL) is engaged in the trading of edible oils (mainly crude palm oil). The company commenced operation 2011 onwards. The entity imports edible oils mainly from Singapore, Malaysia and U.A.E and facilitates high sea sales to customers like in India. The entity generally engages in trading based only on back to back orders, which reduces price volatility risk. The company is promoted by the Gupta family and is presently looked after by Mr. Varun Gupta. In addition to operating this entities, the Gupta family also operates other entities which are engaged in similar oil trading operations– RV Wines LLP (IVR B+/Stable, IVR A4), Avyukta Agro Impex Pvt Ltd (IVR B+/Stable, IVR A4) and Vindeshwari Exim Pvt Ltd (IVR BB+/Stable, IVR A4+). RV Wines LLP and Avyukta Agro ImpexPvt Ltd have recently been incorporated and have commenced operation only from Q4FY18, while Vindeshwari Exim Pvt Ltd has been in operation 2014 onwards.

**Financials (Standalone Basis)**

(Rs. crores)

<b>For the year ended* / As On</b>	<b>31-03-2017 (Audited)</b>	<b>31-03-2018 (Audited)</b>
Total Operating Income	43.68	52.61
EBITDA	1.27	1.65
PAT	0.20	0.31
Total Debt	3.26	1.97
Tangible Networkworth	3.24	3.55
EBITDA Margin (%)	2.90	3.14
PAT Margin (%)	0.47	0.59
Overall Gearing Ratio (x)	1.01	0.55

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:**Not applicable

**Any other information:** N.A

**Rating History for last three years:**

S. 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 Fund Based Limits	Long Term	1.50	IVR BB+/ Stable Outlook	--	--	--
2.	Short Term Non-Fund Based Facilities	Short Term	15.00	IVR A4+			
3.	Proposed Fund Based/Non-Fund Based Facilities	Long Term/ Short Term	0.50	IVR BB+/ Stable Outlook/ IVR A4 Plus			

**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).

# Infomerics Valuation And Rating Pvt. Ltd.



## Name and Contact Details of the Rating Analyst:

Name: Shri. Karan S. Punjabi

Tel: (022) 40036966

Email: [kspunjabi@infomerics.com](mailto:kspunjabi@infomerics.com)

## 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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

## 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 Fund Based Limits- Cash Credit	NA	NA	NA	1.50	IVR BB+/ Stable Outlook
Short Term Fund based facilities- LC	NA	NA	NA	15.00	IVR A4+
Proposed Fund Based/Non-Fund Based Facilities	NA	NA	NA	0.50	IVR BB+/ Stable Outlook/ IVR A4 Plus