



Sonasati Organics Pvt Ltd (SSOPL)

March 11, 2019

Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Facilities	67.48	IVR BB / Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Non Fund Based Facilities	4.00	IVR A4 (IVR A Four)	Assigned
Short Term Fund Based Facilities	0.90	IVR A4 (IVR A Four)	Assigned
Total	72.38		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from its experienced promoters, reputed clientele and policy initiatives by the Government. The ratings however are tempered by its small scale of operation, moderate credit profile, moderate profitability and volatile raw material prices. Growth in scale of operations, government policies and capital structure are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters of the company, Mr. Rakesh Kumar, Mr. Manish Jaiswal and Mr. Devendra Kumar Singh have been associated with the company for more than half a decade. The promoters have ensured a successful transition from the manufacturing of extra neutral alcohol and rectified spirit to ethanol production now. They are well supported by a team of experienced personnel.

Reputed Clientele

SSOPL only caters to the requirements of state owned petroleum companies, which include HPCL, BPCL and IOCL. Orders are secured by bidding for tenders floated by these OMC's. The tender is usually for a period of one year post which the company again participates via a fresh tender.

Policy initiatives by the Government

In January 2013, the Union government launched the Ethanol Blended Petrol (EBP) programme, which made it mandatory for oil companies to sell petrol blended with at least 5 per cent of ethanol. The EBP programme is presently being implemented in a total of 13 states with blending level of about 2% against a mandatory target of 5%. In a later decision, the government has set a target of 10 per cent ethanol blending in petrol by 2022. In lieu of the above developments and also given that the government currently does not allow import of ethanol for fuel blending, the outlook appears bright for this industry.

Key Rating Weaknesses

Small scale of operation

SSOPL has a small scale of operation with total operating income of Rs. 47.27 crore as on March 31, 2018 and Rs. 42.85 crore as on March 31, 2017. The company is still at a nascent stage of operations in the manufacturing of ethanol after the ban on liquor in Bihar.

Moderate credit profile

SSOPL has a moderate credit profile marked by overall gearing of 2.47x and Long term Debt to equity ratio of 2.13x albeit improving from the previous year. The long term debt to GCA and Long term debt to EBITDA appeared stressed at 10.51x and 5.11x on account of the term loans and unsecured loans availed by the company for setting up the liquor plant initially.



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Moderate profitability

The company's profitability have been moderate with a reported PAT of Rs.0.18 cr as on March 31, 2018 and Rs.0.25 cr as on March 31, 2017. However, the same was on account of high capital charges (Depreciation and Interest) arising out of the capex implemented by the company for setting up the liquor facility initially. The GCA, however, was comfortable for the last two financial years.

Volatile raw material prices

The key raw material for ethanol manufacturing is molasses. Molasses prices are volatile in nature due to the cyclical nature of the sugar industry.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The company's bank limits remained highly utilized for the twelve months through December 18. Further, SSOPL is expected to generate modest accruals going forward against which it has sizeable repayment obligations. The accruals are expected to meet the repayment obligations in the medium run.

About the Company

Sona Sati Organics Private Limited (SSOPL), incorporated in 2004 was earlier into manufacturing of extra neutral alcohol and rectified spirit with its unit located in Bihar. With the Government of Bihar imposing a ban on liquor, SSOPL ventured into manufacturing of ethanol to cater to the requirements of petroleum companies. The commercial operation of the plant commenced from June 16, 2016. Mr Rakesh Kumar, Mr Manish Kumar Jaiswal, Mr Manoj Kumar, Mr Ramashankar Prasad and Mr Devendra Prasad Singh are the directors of the company.



Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	42.85	47.27
EBITDA	10.20	12.27
PAT	0.25	0.18
Total Debt	81.27	72.85
Tangible Net worth	29.11	29.54
EBITDA Margin (%)	23.81	25.97
PAT Margin (%)	0.56	0.38
Overall Gearing Ratio (x)	2.79	2.47

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Ind-Ra has moved the rating of SSOPL into the Issuer Non-Cooperating category as the company did not participate in the rating despite repeated follow ups as per Press Release dated November 13, 2018.

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 Fund Based Limits - Cash Credit	Long Term	10.00	IVR BB/ Stable Outlook	-	-	-
2.	Long Term Fund Based Limits - Term Loan	Long Term	57.48	IVR BB/ Stable Outlook	-	-	-
3.	Short Term Non Fund Based Limits- Bank Guarantee	Short Term	4.00	IVR A4	-	-	-
4.	Short Term Fund Based Limits- WCDL	Short Term	0.90	IVR A4	-	-	-



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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:

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 Fund Based Limits–Cash Credit	-	-	-	10.00	IVR BB/ Stable Outlook
Long Term Fund Based Limits – Term Loan	-	-	To be repaid fully by FY26-27	57.48	IVR BB/ Stable Outlook
Short Term Non Fund Based Limits- Bank Guarantee	-	-	-	4.00	IVR A4
Short Term Fund Based Limits- WCDL	-	-	-	0.90	IVR A4