

December 12, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan	19.00	SMERA BBB+/Stable (Assigned)
Cash Credit	50.00	SMERA BBB+/Stable (Assigned)

SMERA has assigned a rating of **'SMERA BBB+' (read as SMERA triple B plus)** to the abovementioned bank facilities of Supple Tek Industries Private Limited (STIPL). The outlook is **'Stable'**. STIPL has taken over the running business of K S Agro Exports (KSAE) with effect from October 02, 2014. SMERA has withdrawn the ratings of 'SMERA BBB+/Stable/SMERA A2' on the bank facilities of KSAE in view of the transfer of business to STIPL.

STIPL's rating is supported by the transfer of KSAE's well-established business. The rating draws comfort from the company's experienced management, established relations with customers and healthy financial risk profile. However, the rating is constrained by the company's exposure to geographic and customer concentration risks. The rating is also constrained by the company's low net profit margin in an intensely competitive segment of the agro-commodities industry.

STIPL, incorporated in 2013, is an Amritsar-based company promoted by Mr. Kawaljit Singh Arora and Mr. Ramneek Singh. STIPL has taken over the running business of KSAE with effect from October 02, 2014. STIPL's rating is mainly supported by the well-established business of KSAE. The firm was established in 2008 by Mr. Kawaljit Singh Arora and Mr. Ramneek Singh. KSAE undertook trading of rice and other agricultural commodities such as sugar, flour and soya beans. The firm ranked as one of the top rice exporters in India. KSAE's rice exports accounted for ~34 per cent of India's total basmati rice exports in FY2013-14 (refers to financial year, April 01 to March 31).

The company benefits from its experienced management. Mr. Kawaljit Singh Arora and Mr. Ramneek Singh, promoters of STIPL, have around three decades of experience in the rice processing industry. Under the company's management, KSAE's revenues had increased from Rs.452.58 crore in FY2011-12 to Rs.4, 178.42 crore in FY2013-14. STIPL is poised to benefit from KSAE's established relations of around 40 years with key customers. SMERA believes STIPL will maintain a healthy financial risk profile in line with KSAE's financial profile (prior to transfer of business). STIPL will also maintain efficient working capital management and comfortable liquidity position. The entire net worth of KSAE is expected to be transferred (in the form of equity and unsecured loans) to STIPL in FY2014-15. STIPL's capital structure may deteriorate (in comparison with the capital structure of KSAE) in case a portion of KSAE's net worth is transferred in the form of unsecured loans. However, the company's overall financial risk profile is expected to remain healthy.

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STIPL is exposed to geographical concentration risk arising from high dependence on exports to Iran, which account for ~90 per cent of the company's total revenues. STIPL's credit risk profile is thus exposed to adverse changes in trade regulations and geopolitical situations. The company's operations are susceptible to substantial relaxations on the ban (imposed by European Union) on usage of SWIFT payment mechanism to remit funds to Iran. The aforementioned ban resulted in the emergence of a barter trade system between Iran and India. India's rice exports have grown at a strong compound annual growth rate (CAGR) of 56.88 per cent over the past three years on the back of the barter system and the gradual shift in customers' preferences towards high quality long-grain basmati rice. Any substantial relaxation on the ban on usage of SWIFT payment mechanism will adversely affect STIPL's revenue profile; however, the impact of the same will be mitigated by the increase in demand on account of change in customers' preferences. STIPL plans to tap other markets in the Middle East to mitigate geographical concentration risk. The company faces customer concentration risk arising on account of high dependence on orders received from six customers. STIPL's net profit margin is expected to remain low at ~1.5–1.6 per cent on account of the low value-added nature of the trading business. The company faces intense competition from several well-established players such as KRBL, Kohinoor and LT Foods.

Outlook: Stable

SMERA believes STIPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues and cash accruals while achieving a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the company's revenues and cash accruals, or in case of deterioration in the company's financial risk profile and liquidity position.

About the company

STIPL, incorporated in 2014, is an Amritsar-based company promoted by Mr. Kawaljit Singh Arora and Mr. Ramneek Singh. STIPL undertakes trading of rice and other agricultural commodities such as sugar, flour and soya beans. The company also undertakes milling of basmati rice. STIPL commenced full-fledged commercial operations on October 02, 2014.

STIPL has undertaken capex of ~Rs.45.00 crore to set up a rice milling plant with installed capacity of 12 metric tonnes per hour. The company has funded the aforementioned capex through term loans of Rs.19.00 crore and promoters' funds (equity and unsecured loans) of ~Rs.26.00 crore.

The company reported profit after tax (PAT) of Rs.0.03 crore (provisional) on net sales of Rs.1.29 crore (provisional) during April 2014 to September 2014. STIPL's net worth stood at Rs.28.60 crore as on October 31, 2014.

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SMERA RATINGS LIMITED

Supple Tek Industries Private Limited (STIPL)

*Rating
Rationale*

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