

Press Release

SUDALAGUNTA AGRO MILLS LIMITED

March 14, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.5.00 Cr.
Long Term Rating	SMERA B/ Stable(Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA B**' (read as **SMERA B**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs. 5.00 crore bank facility of Sudalagunta Agro Mills Limited (SFML). The outlook continues to remain '**Stable**'.

SAML, established in 2007 is a Tirupati-based company promoted by Mr. Jayaram Chowdary, Mr. Krishna Kumar and Mrs. Prameela, engaged in the milling of whole-wheat flour (aata), wheat flour (maida) and semolina (suji). SAML also undertakes milling on job work basis and the same contributes around 40 per cent to its total revenues. SFML, established in 2007 is a Tirupati-based company engaged in the milling of whole-wheat flour (aata), wheat flour (maida) and semolina (suji).

SMERA has consolidated the business and financial risk profiles of Sudalagunta Flour Mills Limited (SFML) and Sudalagunta Agro Mills Limited (SAML) together referred to as the Sudalagunta Group. The consolidation is in view of the common management and strong business and financial linkages between the two companies.

Key Rating Drivers

Strengths

• Experienced management

Sudalagunta group promoted by Mr. Jayaram Chowdary, Mr. Krishna Kumar and Mrs. Prameela. The directors of the group have around two decades of experience in same line of business. Mr. Jayaram Chowdary has directorship in Sudalagunta Sugar Limited (1994) which is engaged in manufacturing of white sugar.

• Stable profitability margins

The profitability margins of the group have remained fairly stable over the past two years ended with the operating margins ranging between 6.45 to 6.75 per cent till FY'2017. Further the PAT margins stood at 2.03 percent for FY 2017 as against 1.56 percent in the previous year

Weaknesses

• Average financial risk profile

The group is having average financial risk profile marked by low networth, moderate gearing and average debt protection metrics. The networth stood at Rs.12.52 crore as on 31st March 2017 as against Rs.11.55 crore in the previous year. The gearing stood at 0.90 times as on 31st March 2017 as against 0.89 times in the previous year. The total debt of Rs.11.28 crore consists of long term debt of Rs.2.84 crore, short term

borrowings of Rs.7.19 crores and CPLTD portion of Rs.1.25 crore. The interest coverage ratio stood at 2.02 times in FY 2017 as against 1.83 times in the previous year. The NCA/TD stood at 0.11 times in FY2017 as against 0.08 times in the previous year.

• Moderate scale of operations

The group operates with moderate scale of operation evident from operating income of Rs.47.56 crore in FY 2017 as against Rs.35.59 crores in the previous year. Furthermore, till January 2017 the group has achieved revenue of Rs.32.00 crores (provisional).

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that Sudalganta group will continue to benefit over the medium term from the promoters vast experience in agri business. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially, while maintaining its operating profitability. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability amidst intensifying competition.

Rating Sensitivity Factors

- Improvement in revenues and profitability
- Movement in gearing and coverage indicators
- Efficient working capital management

About the group

The Sudalganta Group (based in Tirupati) comprising of SAML and SFML is engaged in the milling of whole-wheat flour (aata), wheat flour (maida) and semolina (suji). The group is promoted by Mr. JayramChowdary. The group has total production capacity of 100 metric tonnes per day.

For FY2016-17, the Sudalganta Group reported profit after tax of Rs.0.97 crore on operating income of Rs.47.56 crore, as compared with net profit after tax of Rs.0.56 crore on operating income of Rs.35.59 crore for FY2015-16. The group's net worth stood at Rs.12.52 crore as on March 31, 2017, as compared with Rs.11.55 crore a year earlier.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	47.56	35.59	41.10
EBITDA	Rs. Cr.	3.21	2.29	2.25
PAT	Rs. Cr.	0.97	0.56	0.26
EBITDA Margin	(%)	6.75	6.45	5.48
PAT Margin	(%)	2.03	1.56	0.62
ROCE	(%)	12.97	8.90	8.98
Total Debt/Tangible Net Worth	Times	0.90	0.89	1.12
PBDIT/Interest	Times	2.02	1.83	1.36
Total Debt/PBDIT	Times	3.41	4.37	5.43
Gross Current Assets (Days)	Days	88	88	77

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

No Default Statement pending

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12 December, 2016	Cash Credit	Long Term	3.50	SMERA B/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	SMERA A4 (Reaffirmed)
13 August, 2015	Cash Credit	Long Term	3.50	SMERA B/ Stable (Assigned)
	Bank Guarantee	Short Term	1.50	SMERA A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA B/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>SumanChowdhury President-SMERABondRatings Tel:022-67141107 suman.chowdhury@smera.in</p> <p>Deep Majumder Analyst - Rating Operations Tel: 022-67141147 deep.majumder@smera.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p>

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.