

Press Release

S G Agro Industries (SGAI)

28 February, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs.10.40 Cr.
Long Term Rating	SMERA B+/Outlook: Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA B+**' (read as **SMERA B plus**) from '**SMERA B**' (read as **SMERA B**) on the above mentioned facility of S G Agro Industries. The outlook is '**Stable**'.

SGAI, established in 2012 as a partnership firm by Mr. Gourav Goel was converted into a proprietorship concern on April 1st 2016. The firm, promoted by Mrs. Trsiha Goel, is engaged in the milling, processing and trading of basmati and non-basmati rice and has an installed capacity of 6 tons per day. The entity has facility located in Karnal (Haryana). The day to day operations of the entity are managed by Mr. Gourav Goel (Key Management Personnel).

The rating upgrade reflects sustained growth in revenue profile, experienced management, proximity to raw materials and improvement in working capital management.

Key rating drivers

Strengths

Experienced management: Mr. Gourav Goel, the key management personnel of the entity has more than two decades of experience in the rice industry as it is their family business. In the year 2012, Mr. Gourav Goel separated himself from the family business and started own firm.

Growth in revenue profile: The operating income of the entity improved from Rs.21.89 crore in FY2016 to Rs.31.93 crore in FY2017 supported by market demand coupled with expansion plans undertaken by the entity. The entity generated ~Rs.39 crore from April 01, 2017 to February 14, 2018 (provisional).

Proximity to raw materials: The processing facility of SGAI is located in Karnal (Haryana) which is one of the major rice producing states in India, thus providing proximity to paddy and contributes to the total rice requirement of the entity. The entity procures rice from local mandi's in Karnal.

Weaknesses

Average financial risk profile: The average financial risk profile of the entity is marked by low net worth, high gearing levels and modest debt protection metrics. The net worth stood low at Rs.2.28 crore as on March 31, 2017 as compared to Rs.2.01 crore as on March 31, 2016. The gearing has increased from 4.50 times as on March 31, 2016 to 4.80 times as on March 31, 2017 due to increase in utilisation of cash credit limits. The entity has short term debt of Rs.7.89 crore, term loans of Rs.1.17 crore and unsecured loans of Rs.1.52 crore as on March 31st 2017. The coverage indicators such as Interest Coverage Ratio (ICR) declined to 1.54 times as on March 31, 2017 as compared to 1.57 times as on March 31, 2016. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.05 times as on March 31, 2017.

Working capital intensive nature of business: SGAI has working capital intensive nature of operations marked by high GCA days of 145 in FY2017 as against 169 days in FY2016. This is majorly on account of high inventory holding period of 108 days in FY2017 as against 174 days in FY2016. The debtor days stood at 38 days in FY2017 as against 4 days in FY2016. The rice business is a working capital intensive business because of the need to store large quantities of paddy as the harvesting season is during August to October and January to March. Also, entities store rice in order to 'age' which improves its characteristics in terms of taste, aroma etc. and thus fetches better realizations.

Analytical approach:

SMERA has considered standalone business and financial risk profiles of SGAI.

Outlook: Stable

SMERA believes that the entity will maintain its stable business risk profile on account of the management's experience in the rice business and proximity to raw materials. The outlook may be revised to positive in case of sustained increase in revenues and accruals while maintaining its working capital cycle. Conversely, the outlook may be revised to negative in case significant decline in revenues and accruals or in case of elongation of working capital cycle.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	31.93	21.89	22.41
EBITDA	Rs. Cr.	1.41	1.31	1.27
PAT	Rs. Cr.	0.50	0.48	0.51
EBITDA Margin	(%)	4.42	5.99	5.66
PAT Margin	(%)	1.56	2.18	2.29
ROCE	(%)	8.84	8.68	9.06
Total Debt/Tangible Net Worth	Times	4.80	4.50	4.79
PBDIT/Interest	Times	1.54	1.57	1.67
Total Debt/PBDIT	Times	7.74	6.87	7.19
Gross Current Assets (Days)	Days	145	169	157

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09-Jan-2018	Cash Credit	Long Term	6.40	SMERA B (Indicative)
	Term Loan	Long Term	1.50	SMERA B (Indicative)

	Proposed Cash Credit	Long Term	2.50	SMERA B (Indicative)
21-Nov-2016	Cash Credit	Long Term	6.40	SMERA B/Stable (Assigned)
	Term Loan	Long Term	1.50	SMERA B/Stable (Assigned)
	Proposed Cash Credit	Long Term	2.50	SMERA B/Stable (Assigned)

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA B+/Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.41	SMERA B+/Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.99	SMERA B+/Stable (Upgraded)

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ABOUT SMERA

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