

Press Release

Shakti Distilleries Private Limited (SDPL)

10 February, 2017

Rating Assigned

Total Instruments Rated*	Rs. 8.20 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-' (read as SMERA double B minus)** to the Rs.8.20 crore long term bank facilities of Shakti Distilleries Private Limited (SDPL). The outlook is '**Stable**'. SDPL is engaged in the manufacturing of ethanol and sodium methoxide, used in the chemical and pharma industries.

List of key rating drivers and their detailed description

Strengths:

Prudent financial risk profile: The ratings factors in the increase in SDPL's interest coverage ratio from 1.71 times in FY2015 to 3.40 times in FY2016 (Provisional) due to improvement in profitability. The operating margin increased from 4.14 per cent in FY2015 to 5.27 per cent in FY2016 (Provisional) on account of lower sugar cane prices in the first half of FY2016. The rating also draws comfort from the comfortable gearing of the company which stood at 0.90 times as on 31 March, 2016 as against 0.44 times as on 31 March, 2015. SDPL has comfortable working capital cycle of 47 days in FY2016 as compared to 21 days in FY2015.

Experienced management: The ratings are supported by the extensive experience of the management in the ethanol industry. SMERA takes note of the well-established business relationships of the promoters in the industry.

Weaknesses:

Modest scale of operations: The rating is constrained by the modest scale of operations. The operating income stood at Rs.22.66 crore in FY2016 (Provisional) against Rs.19.99 crore in FY2015 due to intense competition in the ethanol industry. The net worth has been low at Rs.3.11 crore on 31 March, 2016 (Provisional) against Rs.2.51 crore in the previous year.

Susceptibility of profitability margins to sugarcane prices: SMERA also takes note of the susceptibility of profitability indicators to volatility in raw material prices in the ethanol industry. The highly competitive nature of the industry inhibits SDPL's ability to pass on price changes to the end customer.

Analytical approach: SMERA has taken a standalone view of the financial and business risk profiles of SDPL.

Applicable Criteria

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

Outlook: Stable

SMERA believes that SDPL will maintain a stable outlook in the medium term on account of its healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in scale of operations while maintaining profitability indicators. Conversely, the outlook may be revised to 'Negative' in case of higher than expected increase in gearing or if the company takes on high debt funded capex.

About the Rated Entity

SDPL, an ISO 9001:2008 certified company, was established in 2002 by Mr. Shreyans Baldev Goyal, Mr. Kirtibhai Narottamdas Patel and Mr. Dipakkumar Mafatlal Patel. The company is engaged in the manufacturing of ethanol and sodium methoxide at Surat. The clientele of the company includes Reliance Industries, Allembic Limited and Essar Steel India among others.

SDPL reported net profit of Rs.0.57 crore on operating income of Rs.22.66 crore in FY2016 (Provisional) against net loss of Rs.0.08 crore on operating income of Rs.19.99 crore in FY2015.

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

Any other information: NA

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	4.00	SMERA BB- /Stable (Assigned)	-	-	-	-	-	-
Proposed Cash Credit	LT	1.50	SMERA BB- /Stable (Assigned)	-	-	-	-	-	-
Proposed Term Loan	LT	2.70	SMERA BB- /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	N.A	N.A	N.A	4.00	SMERA BB-/Stable (Assigned)
Proposed Cash Credit	N.A	N.A	N.A	1.50	SMERA BB-/Stable (Assigned)
Proposed Term Loan	N.A	N.A	N.A	2.70	SMERA BB-/Stable (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Arindam Som, Rating Analyst, Tel: 011-49731321 Email: arindam.som@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

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.