

Press Release

Sethi Agritech Private Limited

September 27, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 8.00 crore bank facilities of Sethi Agritech Private Limited (SAPL). The outlook is '**Stable**'.

SAPL was incorporated in 2009 by Ms. Asha Sethi and Mr. Kamlesh Kumar Sethi. The company is engaged in processing and marketing of various seeds such as wheat seeds, Soya bean seeds and vegetable seeds. SAPL is located at Khandwa (Madhya Pradesh) with an installed capacity of 100 tonnes per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SAPL to arrive at the rating.

Key Rating Drivers:

Strengths

- **Experienced management**

The promoters of the SAPL have been engaged into processing of agricultural seeds from more than a decade. Being into similar line of business since past two decades, the promoters have gained good insight about the industry and have developed healthy relations with customers and suppliers.

- **Revenue in growth trend**

The scale of operations of SAPL is growing marked by operating income of Rs.21.73 crore in FY2018 (Provisional) as against Rs.13.79 crore in FY2017 and Rs.10.68 crore in FY2016. Further, SAPL has booked revenue of Rs.19.00 crore as on 31 August, 2018. Acuité believes that SAPL will be able to achieve higher revenue growth in the medium term on the back of healthy flow of orders from its customers due to addition of new products.

- **Moderate financial risk profile**

The financial risk profile of SAPL is moderate marked by tangible net worth of Rs.3.66 crore as on 31 March, 2018 (Provisional), which includes Rs.0.67 crore of unsecured loans from promoters considered as quasi equity as against Rs.3.05 crore as on 31 March, 2017. The debt/equity ratio stood at 1.71 times as on 31 March, 2018 (Provisional) as against 1.78 times as on 31 March, 2017. The total debt of Rs.6.26 crore outstanding as on 31 March, 2018 (Provisional) comprises entirely of working capital borrowing from the bank. The interest coverage ratio stood at 1.48 times in FY2018 (Provisional) as against 3.98 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.77 times as on 31 March, 2018 (Provisional) as against 1.82 times as on 31 March, 2017. The net cash accruals stood at Rs.0.28 crore in FY2018 (Provisional) as against Rs.0.25 crore in FY2017. Acuité believes that the ability of SAPL to sustain its financial risk profile while undertaking debt funded capex in the medium term will be a factor of key rating sensitivity.

Weaknesses

- **Working capital intensive operations**

The operations of SAPL are working capital cycle intensive; however they have improved as compared to the last period under study. The improvement is marked by Gross Current Asset (GCA) days of 144 in FY2018 (Provisional) as against 188 days in FY2017. This is majorly on account of lower receivables. The receivable days stood at 40 in FY2018 (Provisional) as against 64 days in FY2017. The inventory holding period stood at 89 days in FY2018 (Provisional) as against 96 days in FY2017. SAPL does not get any credit period from its suppliers. The average bank limit utilisation stood at ~90 percent for the last three months ended August 2018. Acuité believes that SAPL will maintain adequate funds in order to maintain its working capital cycle over the medium term.

- **Inconsistent profitability margins**

The profitability margins of SAPL are uneven with operating profitability of 4.97 percent in FY2018 (Provisional) as against 3.13 percent in FY2017 and 6.09 percent in FY2016. Price of food grains, the primary raw material, is sensitive to changes in government policies and intense competition. Operating profitability of SNPL is, thus, vulnerable to the Government of India's (GoI's) policies related to the minimum support price (MSP) at which food grains are purchased from farmers. The net profitability margins stood average at 0.79 percent in FY2018 (Provisional) as against 1.04 percent in FY2017 and 1.15 percent in FY2016. Acuité believes the ability of SAPL to sustain its growth while maintaining its profitability will be a factor of key rating sensitivity.

- **Susceptibility of margins to volatility in raw material prices**

The major raw materials of the company are paddy and wheat. The prices of the same are fluctuating in nature, therefore, the operating profit margins of SAPL are susceptible to raw material price fluctuation. The prices of these commodities are highly dependent on agro climatic conditions which are uncertain. Any sudden changes in climatic conditions like inadequate rainfall or draught might affect the availability of agricultural commodities causing scarcity and pushing commodity prices upwards.

Outlook: Stable

Acuité believes that SAPL will continue to benefit over the medium term on account of experienced management. The outlook may be revised to 'Positive' if SAPL is able to improve its working capital cycle and successfully scale up operations while improving its profitability. Conversely, the outlook may be revised to 'Negative' if SAPL registers significant decline in its revenues or margins, or if there is elongation in its working capital cycle affecting its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.73	13.79	10.68
EBITDA	Rs. Cr.	1.08	0.43	0.65
PAT	Rs. Cr.	0.17	0.14	0.12
EBITDA Margin	(%)	4.97	3.13	6.09
PAT Margin	(%)	0.79	1.04	1.15
ROCE	(%)	10.57	4.98	9.33
Total Debt/Tangible Net Worth	Times	1.71	1.78	0.87
PBDIT/Interest	Times	1.48	3.98	2.01
Total Debt/PBDIT	Times	5.77	12.47	3.33
Gross Current Assets (Days)	Days	144	188	135

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Jul-2017	Cash Credit	Long Term	6.00	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE 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	6.00	ACUITE B+ / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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