Press Release

Sanwaria Consumer Limited (SCL)

28 October, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 1457.00 Cr
Long Term Rating	SMERA BBB+/Outlook:Stable
Short Term Rating	SMERA A2

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB+' (read as SMERA triple B plus)** and short term rating of **'SMERA A2' (read as SMERA A two)** on the Rs.1457.00 crore bank facilities of Sanwaria Consumer Limited (SCL).

The Madhya Pradesh-based Sanwaria Consumer Limited (formerly known as 'Sanwaria Agro Oils Limited'), was incorporated in 1991 by the Late Mr Ram Narayan Agrawal and family. SCL commenced operations in 1993. It is listed on BSE and NSE.

The company is engaged in the processing of soya bean, basmati rice, wheat among others and trading of agro commodities (~33 per cent of sales).

SCL markets its products under the 'Narmada', 'Sulabh' and 'Sanwaria' brand names. The company has recently introduced basmati rice in Dubai under the 'Nashira' brand name.

As on 31 March, 2017, the company has installed capacity of 2,500 tonne per day (TPD) for solvent extraction, 250 TPD for refining of oil and 600 TPD for processing of basmati rice at three locations - Mandideep, Itarsi and Betul at Madhya Pradesh.

List of key rating drivers and their detailed description

Strengths

Experienced management: SCL was promoted by the Late Mr. Ram N. Agarwal in 1991. Currently, his sons and grandsons are actively engaged in the day-to-day operations of the company. The second and third generation members of the family i.e. Mr. Anil Agrawal, Mr. Ashok Agrawal, Mr. Satish Agrawal, Mr. Abhishek Agrawal and Mr. Rajul Agrawal have experience of over two decades in the agro industry. The extensive experience of the management has helped the company establish long term relations with suppliers resulting in direct procurement of agricultural produce through more than 80 direct collection centres. Moreover, the experience has also helped in building strong distribution network with 100 distributors spread across states including Madhya Pradesh, Maharashtra, Rajasthan and Himachal Pradesh. The products are sold under the brand names 'Sanwaria', 'Sulabh', 'Narmada' and 'Nashira' (Dubai).

SMERA believes that the experience of the management in processing and trading of agricultural products will continue to benefit the company over the near to medium term.

Diversified product portfolio: The company shifted its focus from soya products (~83 per cent in FY2015) to other agro products such as basmati rice, suji, maida, dalia among others with decline in the demand for Indian soya de-oiled cake in the international market owing to non-competitive prices.

Currently, the product mix constitutes basmati rice (56 per cent), soya meal (17 per cent), wheat and related products (20 per cent), oil (7 per cent) and others. The ability to shift across various agro product lines has helped the company maintain a steady topline growth, thus mitigating its product concentration risk.

Healthy revenue growth: The company registered significant revenue growth of 30 per cent in FY2017. The revenues increased to Rs.3505.21 crore in FY2017 compared to Rs.2690.65 crore in FY2016. Further, the revenues registered increase of ~90 per cent in FY2018 (half yearly unaudited results) compared to that in the corresponding period last year. The revenues increased to Rs.2378.43 crore (April to September, 2017) as against Rs.1247.27 crore from (April to September, 2016). The increase in the turnover is mainly on account of diversification to other agro products. Further, strong distribution network, tie ups with various retail chains and entry into direct retail under the 'Sanwaria Kirana or Sanwaria Consumer Shoppy' by setting up its own stores have supported growth.

The company plans to add more agro products and set up more exclusive direct retail stores through a franchisee or ownership model in Madhya Pradesh and Maharashtra, thus supporting further growth in revenue in the near to medium term.

Proximity to raw material source: Madhya Pradesh is one of the largest producers of wheat and soya in India. Further, the state also cultivates basmati and non-basmati rice, gram among other products. Since the company is located in Madhya Pradesh, it benefits from the proximity to raw material growing areas.

Weaknesses

Low profitability margins amidst intense competition in the agro industry: SCL has exhibited fluctuating and low operating profitability (in the range of ~3 to 3.50 per cent) over the past years. The margins are subdued on account of commoditised and low value addition inherent in the activity. Since FY2015, the company ventured into basmati rice and processed wheat products which have a highly competitive and fragmented market with established players like LT Foods Limited, KRBL, Patanjali Ayurved Limited, ITC among others. To gain a foothold in the other agro segments, the company had to negotiate prices and extend credit to customers, which resulted in continued low operating margins in FY2016 and FY2017.

Further, the company sells around ~20 per cent of its products under the aforementioned brand names with the rest sold on bulk basis reflecting lower margin business. The company is also into trading of agro products (around 33 per cent revenues).

SMERA believes that the operating margins will be influenced by the ability to generate high revenue from its branded segment and introduction of high value products.

Susceptibility of operating margins to fluctuations in raw material prices and forex rates: SCL deals in agro commodities, the prices of which are highly volatile and depend upon various factors like monsoon, acreage under cultivation, government regulations etc. As a result the margins are exposed to fluctuations in raw material prices.

Further, the company exports around 17 per cent of its products mainly to Asian and Middle Eastern countries thus exposing itself to fluctuations in forex rates.

Moderate financial risk profile: The networth stood at Rs.384.03 crore as on 31 March, 2017 compared to Rs.342.86 crore as on 31 March, 2016. The company issued fresh equity shares at a premium in FY2017 by converting part of its unsecured loans to equity. The gearing stood at a high of 2.35 times as on 31 March, 2017. The total debt of Rs.903.74 crore mainly includes short borrowings from banks/financial institutions for working capital. The Total outside Liabilities to Tangible Networth ratio stood at 2.84 times as on 31 March, 2017 compared to 3.20 times as on 31 March, 2016.

The company has significant exposure in the form of loans and advances in its group entities and investment in its subsidiary. The debt-to-adjusted networth (networth less loans and advances to its group/related entities and investment in subsidiary) ratio stood at 2.97 times as on 31 March, 2017.

The company generated net cash accruals of Rs.49.04 crore for FY2017 as against Rs. 23.61 crore for FY2016. The interest coverage ratio stood moderate at 1.90 times in FY017, an increase from 1.54 times in FY2016 on account of improved profitability. The net cash accruals to total debt (NCA/TD) ratio stood at 0.06 times in FY2017.

Working capital intensive operations: The Gross Current Asset stood high at 137 days in FY2017 compared to 171 days in FY2016 mainly on account of inventory of 54 days and debtors of 76 days. SMERA believes that operations will continue to remain working capital intensive considering that the company operates in an agro based industry. Further, with expansion plans of setting up own retail stores and penetrating into other agro products, the company is expected to increase its working capital intensity.

The average cash credit utilisation stood at high levels during April to September, 2017.

Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the rating.

Applicable Criteria

- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm
- Trading Entities -https://www.smera.in/criteria-trading.htm
- Application of Financial Ratios & Adjustments - https://www.smera.in/criteria-fin-ratios.htm
- Default Recognition - https://www.smera.in/criteria-default.htm

Outlook: Stable

SMERA believes that SCL will maintain a stable outlook over the medium term on account of its experienced management and diversified product profile. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins and managing its working capital efficiently. The outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or elongation in its working capital cycle translating to deterioration in its financial risk profile.

About the Rated Entity

For FY2016-17, SCL reported profit after tax (PAT) of Rs. 43.97 crore on operating income of Rs.3518.89 crore compared with PAT of Rs.15.68 crore on operating income of Rs.2698.79 crore for FY2015-16.

As per, unaudited results for H1FY18, SCL registered operating income of Rs.2378.44 crore with PAT of Rs.44.70 crore, as against operating income of Rs.1247.27 crore with PAT of Rs.17.44 crore in H1FY17.

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

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***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	NA	NA	NA	870.00	SMERA BBB+/Stable
Bank Guarantee/Letter of Credit	NA	NA	NA	189.00	SMERA A2
Proposed Fund Based Limit	NA	NA	NA	277.00	SMERA BBB+/Stable
Proposed Non Fund Based Limit	NA	NA	NA	121.00	SMERA A2

***The facilities sanctioned are a consortium arrangement.*
***Cash Credit and LC has sublimits/interchangeable*

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

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ABOUT SMERA

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