Press Release

Sangita Sales Private Limited

March 14, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs.31.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB-/Stable)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' **(read as ACUITE double B)** from **'ACUITE BB-' (read as ACUITE double B minus)** to the Rs.31.00 crore bank facilities of Sangita Sales Private Limited (SSPL). The outlook is **'Stable'**.

The upgrade is on account of substantial growth in revenue and net cash accruals, contributed by addition of new customers, leading to improvement in debt protection metrics. SSPL had recorded improvement in scale of operations marked by turnover of Rs.393.74 crore in FY2018 as compared to Rs.159.00 crore in FY2017. Further, for FY2019, SSPL has registered turnover of Rs.434.80 crore till December 2018 (Provisional). SSPL has also recorded improvement in working capital cycle, marked by GCA days of 118 in FY2018 as against 153 in FY2017.

Nagpur (Maharashtra) based, SSPL was incorporated in 1992. The company managed by Mr. Kishor Bansal (Director), Mr. Pradeep Bansal and Mr. A. K. Agarwal is engaged in the business of trading of coal. SSPL has its stock yard in Nagpur, Wani, Bilaspur, Mumbai, Hyderabad, and Ranchi.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

  SSPL was incorporated in 1992 by Mr. Anant Kumar Agarwal and is currently being managed by second generation management comprising Mr. Kishore Bansal and Mr. Pradeep Bansal. Mr. Anant Agarwal has more than four decades of experience and Mr. Kishore and Mr. Pradeep have experience of more than a decade in the coal trading business. Their experience has helped SSPL in establishing its presence in the market which has resulted in growth in scale of operations. SSPL has pan India presence for the supply of their products as they have setup their own stockyard facilities at Nagpur, Wani, Bilaspur, Mumbai, Hyderabad, and Ranchi.

  Acuité believes that SSPL will continue to benefit from the promoter's established presence in the industry and improving business risk profile over the medium term.

- **Improvement in working capital management**

  The working capital cycle of SSPL has improved marked by its Gross Current Assets (GCA) of 118 days in FY2018 as against 153 days in FY2017. The inventory holding period has improved to 33 days in FY2018 as compared to 64 days in FY2017. The receivables period stood at 73 days in FY2018 as compared to 79 days in FY2017. The payables period increased to 77 days in FY2018 as compared to 29 days in FY2017. However, the average bank limit utilisation stood at ~96 per cent for the last three months ended January 2019.

  Acuité believes that SSPL will further improve its working capital management owing to growing cash accruals.

Weaknesses

- **Average financial risk profile**

The financial risk profile of SSPL is average marked by average net worth and debt protection measures, and high gearing. The net worth of SSPL stood at Rs.18.89 crore as on 31 March, 2018 as against Rs.15.93 crore as on 31 March, 2017. The gearing has improved marginally but stood high at 2.61 times as on March 31, 2018 as compared to 2.97 times as on March 31, 2017. Total debt of Rs.49.32 crore as on 31 March, 2018 comprises Rs.0.45 crore term loan from bank, Rs.18.00 crore unsecured loans from promoters and Rs.30.88 crore working capital borrowings. Total Outside Liabilities/Tangible Net Worth (TOL/TNW) also stood high at 6.39 times as on 31 March, 2018 as against 3.70 times as on 31 March, 2017 due to substantial increase in trade payables. Interest Coverage Ratio (ICR) stood at 1.71 times in FY2018 as compared to 1.41 times in FY2017.

Going forward, Acuité believes that the ability of SSPL to improve its financial risk profile will be a key rating sensitivity.

- **Uneven profitability**

The operating margins of SSPL remained uneven and declined to 3.68 per cent in FY2018 as compared to 6.09 per cent in FY2017 and 5.72 per cent in FY2016. The declined in FY2018 is due to increase in freight cost on account of addition of new locations. The PAT margins also slightly declined to 0.77 percent in FY2018 as compared to 0.97 percent in FY2017 and 0.87 percent in FY2016.

Acuité believes that the profitability of SSPL will remain uneven due to trading nature of business.

- **Competitive and fragmented nature of industry**

Coal trading is a highly competitive industry due to presence of multiple players along with low entry barriers which has resulted in intense competition from both organised as well as unorganised segments in the industry. Further, SSPL is exposed to the risk of usage of substitute product by the end user industry and discouragement of use of coal by the central government.

Liquidity Position:

SSPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.81 crore to Rs.3.71 crore during the last three years through 2017-18, while the maturing debt obligations were in the range of Rs.0.12 crore to Rs.0.19 crore over the same period. The cash accruals of SSPL are estimated to increase in the range of Rs.8.92 crore to Rs.11.72 crore during 2019-21, while the repayment obligations are estimated to be around Rs.0.15 crore to Rs.0.20 crore. SSPL maintained unencumbered cash and bank balances of Rs.4.04 crore as on March 31, 2018. However, the current ratio of SSPL stood average at 1.26 times as on March 31, 2018. Acuité believes that the liquidity of SSPL is likely to remain adequate over the medium term on account of its improving scale of operations.

Outlook: Stable

Acuité believes that SSPL's outlook will remain 'Stable' over the medium term from its experienced management and consistent growth in revenue. The outlook may be revised to 'Positive' in case of improvement in financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements deteriorating financial risk profile and liquidity position of SSPL.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	393.74	159.00	160.77
EBITDA	Rs. Cr.	14.49	9.69	9.20
PAT	Rs. Cr.	3.02	1.54	1.40
EBITDA Margin	(%)	3.68	6.09	5.72
PAT Margin	(%)	0.77	0.97	0.87
ROCE	(%)	21.21	15.53	30.51
Total Debt/Tangible Net Worth	Times	2.61	2.97	3.07
PBDIT/Interest	Times	1.71	1.41	1.36
Total Debt/PBDIT	Times	3.36	4.77	4.74
Gross Current Assets (Days)	Days	118	153	150

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
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Dec 2018	Cash Credit	Long Term	31.00	ACUITE BB- (Indicative)
08-Nov-2017	Cash Credit	Long Term	31.00	ACUITE BB- / Stable (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	31.00	ACUITE BB / Stable (Upgraded)

Cash Credit inclusive of sublimit of LC of Rs.25.00 crore

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.