

## Press Release

### S.P.R.L. Foods Limited

May 10, 2018

Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 29.00 Cr
<b>Long Term Rating</b>	SMERA BB/Stable (Assigned)

\*Refer Annexure for details

### Rating Rationale

SMERA has assigned the long term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.29.00 crore bank facilities of S.P.R.L. Foods Limited (SPRL). The outlook is '**Stable**'.

SPRL is an Allahabad-based company incorporated in 2011 by Mr. Shiv Poojan and his family. The company is engaged in the processing and selling of basmati & non-basmati rice, processing of wheat into various products such as flour, semolina, maida among others. The company has two divisions i.e. rice and wheat division, which contribute equally to the total revenue of the company. The manufacturing unit of the company is located in Sahson (Allahabad) with installed capacity of 46,080 tonnes per annum for paddy processing and 54,000 tonnes per annum for wheat processing. The company procures paddy from Allahabad and Jaunpur Mandi (Uttar Pradesh). SPRL mainly sells to traders and commission agents located in Hyderabad, Gujarat and Madhya Pradesh.

### About the Group:

The SP group constitutes S. P. Sortex Rice Exports India Private Limited and SPRL Foods Limited established in 2010 and 2011 respectively. The SP group is engaged in processing and selling of basmati & non-basmati rice alongwith processing of wheat. The SP group is promoted by Mr. Shiv Poojan and his family. The group has two manufacturing unit located in Sahson and Naini (Allahabad) with total installed capacity of 74,880 metric tonnes per annum for paddy processing and 54,000 metric tonnes per annum for wheat processing. The group sells its basmati & non-basmati rice under common brand name 'Shivansh' and 'Prayag'.

### Key Rating Drivers

#### **Strengths:**

##### **Experienced management**

SP group is promoted by Mr. Shiv Poojan who possess more than three decades of experience in trading of agro commodities. The extensive experience of the promoter has helped the group to maintain long standing relations with its customers and in procurement of commodities at favourable price. The group has reported significant growth during the last five years in operating income from Rs. 86.13 crore in FY2014 to Rs. 167.85 crore in FY2018 (provisional). The growth can be attributed to the continuous addition of customers and penetration in branded segment through their own brands sold through traders and commission agents supported by favourable demand. The group has a wide geographical presence in states like Delhi, Gujarat, Telangana, Madhya Pradesh and Uttar Pradesh.

Going forward, SMERA expects the group to maintain its business risk profile on account of experienced management and expected favourable demand for basmati and non-basmati rice in the market.

## Proximity to raw material

The processing facilities of SP group are located in Sahson and Naini (Uttar Pradesh) which is the second largest rice producing states in India. Further, Uttar Pradesh is the largest wheat producing state in the country. Thus, the group has close proximity to raw material cultivating areas which ensures the easily availability of raw material at favourable prices. The procurement season is mainly during October to March every year, however, paddy and wheat is also available during off season.

## Funding support from promoters

The SP group benefits from the funding support provided by the promoters in the form of capital infusion and interest-free unsecured loan which is subordinated to bank debt. The promoters have infused capital of Rs.3.12 crore during FY2018 (provisional) in the form of share application as against Rs.4.35 crore in the previous year in form of share capital and unsecured loans from related parties which is subordinated to bank debt. The funds have been used for the purpose of meeting debt obligation towards long term loans and incremental working capital requirement. Going forward, the timely infusion and funding support from the promoters will continue to remain key rating sensitivity factor.

## Moderate financial risk profile

The financial risk profile of the group is moderate with tangible networth of Rs.31.08 crore as on 31 March, 2018 (provisional) as against Rs.26.87 crore in the previous year. The debt to equity ratio stood at 1.62 times as on 31 March, 2018 (provisional) as against 1.86 times in the previous year. The Interest Coverage Ratio stood improved to 2.13 times for FY2018 (provisional) as against 1.96 times in the previous year. Debt Service Coverage Ratio stood at 1.00 times for FY2018 (provisional) as against 1.01 times in the previous year. The Total outside Liabilities to Tangible Net Worth (TOL/TNW) reduced to 1.81 times as on 31 March, 2018 (provisional) as against 2.15 times in the previous year.

Going forward, SMERA expects the group to maintain its financial risk profile in the absence of major debt funded capex plan and the expected funding support from the promoters.

## Weakness:

### Exposed to volatility in raw material prices

SP group has reported decline in operating margin of around 5.45 percent in FY2018 (provisional) as against 6.97 percent in FY2017 and 7.12 percent in FY2016. The decline is mainly on account of increase in the selling expenses as the group had to give major cash discount for a bulk order received during FY2018. Further, the group is also exposed to volatility in raw material prices as the group is dealing in paddy and wheat which are agricultural commodities. 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. Further, any changes in the government policies will have impact on commodity prices.

### Presence in highly fragmented and competitive industry

The processing of agro commodity industry including rice and flour industry is highly fragmented and competitive in nature. The industry is characterised by the presence of large number of unorganised and organised players. The high competition is expected to keep the profitability of the group under pressure.

## Analytical approach:

SMERA has consolidated the business and financial risk profiles of S.P.R.L. Foods Limited (SPRL) and S. P. Sortex Rice Exports India Private Limited (SPS). This is because of strong linkages between the two entities in terms of the same line of business, common management and shareholders. Further, SPRL sells around 14 percent of its sales to SPS. The companies share common brand name alongwith centralised procurement and marketing team. Together, the above companies are referred as 'SP Group'.

### Applicable Criteria

- Manufacturing Entity: <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>
- Consolidation of Companies: <https://www.smera.in/criteria-consolidation.htm>

### About the Rated Entity -Key Financials

Particulars	Unit	FY17 (Actual)	FY16(Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	136.95	115.07	112.27
EBITDA	Rs. Cr.	9.54	8.19	6.74
PAT	Rs. Cr.	0.68	0.38	(0.22)
EBITDA Margin	(%)	6.97	7.12	6.01
PAT Margin	(%)	0.50	0.33	(0.20)
ROCE	(%)	7.94	8.51	12.79
Total Debt/Tangible Net Worth	Times	1.86	2.29	3.11
PBDIT/Interest	Times	1.96	1.56	1.54
Total Debt/PBDIT	Times	5.12	5.91	7.53
Gross Current Assets (Days)	Days	137	148	153

**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	Not Applicable	Not Applicable	Not Applicable	4.38	SMERA BB/Stable
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.74	SMERA BB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.88	SMERA BB/Stable

### 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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