

## Press Release



Sanna Enterprises

23 May, 2018

### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 20.00 Cr.
<b>Long Term Rating</b>	SMERA BB/ Outlook: Stable (Assigned)
<b>Short Term Rating</b>	SMERA A4+ (Assigned)

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB** (read as SMERA double B) and short-term rating of '**SMERA A4+** (read as SMERA A four plus) on the Rs. 20.00 crore bank facilities of Sanna Enterprises (SE). The outlook is 'Stable'.

Established in 2003, SE is a proprietorship firm set up by Ms. Sanchana Gupta engaged in trading of food grains and other rationing items. The firm supplies food items such as dal, rice, milk, tea, coffee, atta, maida, suji, sugar, refined oil, cereals, and jam through tenders to government departments such as Public Distribution System (PWD) for the state government of Himachal Pradesh, Integrated Child Development Scheme (ICDS) for the government of Haryana, Confed- Haryana Director General, Assam Rifles, Indian Army and Indian Navy. It even supplies agriculture commodities such as maize and varieties of rice to local customers and state authorities in Dimapur (Nagaland).

### Key Rating Drivers

#### Strengths

##### Experienced management

SE is a proprietorship concern managed by Ms. Sanchana Gupta who has 15 years of experience in agro commodity trading. The extensive experience in agri commodity trading has resulted in winning repetitive tenders from government departments.

##### Healthy scale of operations

The scale of operation is healthy with revenue of Rs 317.32 crs in FY 17. The firm has achieved a cumulative annual growth rate (CAGR) of 98.52 per cent during the last 2 years with revenue of Rs 317.32 crs in FY 17 from Rs 80.52 crs in FY 15. During the current year, the firm has achieved revenue of ~ Rs 401.35 crs till March 31,18 (prov). The growth in revenue is on account of executing tenders for the Public Distribution System for the state government of Himachal Pradesh, Integrated Child Development Scheme (ICDS) for the government of Haryana, Confed- Haryana, Indian Navy in the cities of Vizag, Cochin. In addition the firm is executing tenders for the Nagaland Supply Syndicate, Assam Rifles and private players like NCS Enterprises and East India Trade and Agencies.

On an average the firm has ~ 60 per cent of revenue from government departments and balance from private players.

##### Prudent working capital cycle

The firm has prudent working capital cycle marked by gross current asset (GCA) days of 56 in FY 17 as compare to 21 days in FY 16. The firm generally receives payment from the government department with 30-

45 days of supplying. In addition, the firm does not hold inventory, as the sales are mostly tender based, which are executed only after finalisation of the work orders.

### Comfortable financial risk profile

The firm's above average financial risk profile is marked by modest net worth, comfortable debt protection metrics and gearing. The net-worth stands modest at Rs 26.52 cr as on 31st March'17 as compared to Rs 6.39 cr in the previous year. To arrive at the net-worth, SMERA has considered Rs 14.50 crs of unsecured loan from relatives as quasi equity based on the undertaking that the same will kept in the business in the medium term. The debt protection metrics is marked by healthy interest coverage ratio and DSCR of 2.36 times and 1.65 times as on 31st March'17 as compared to 2.05 times and 1.82 times respectively in the previous year. The gearing (debt-equity) stands robust at 0.30 times as on 31st March'17 as compare to 0.81 times in the previous year.

## Weaknesses

### Low profitability

The operating margins stood low at 0.35 per cent in FY 17 as compared to 0.53 per cent in the previous year. The low operating margins is on account of the trading nature of operations and the firm's focus to increase the topline thereby marginally compromising in the profitability. The net profit margins are also low and stood at 0.14 per cent in FY 17 as compare to 0.17 per cent in the previous year.

### Risk related to tender based business

Revenue visibility majorly depends on the success of the tenders floated by government departments as ~ 60 per cent of the revenue is derived from government departments.

### Exposure to the risk in agri-commodity price volatility

The firm is exposed to volatility in agro-commodity prices. This is on account of uncertain agro-climatic conditions such as inadequate rainfall or drought affecting the availability of agricultural commodities resulting in scarcity and increase in commodity prices. Further, changes in government policies, particularly those affecting import/export will have a huge impact on commodity prices.

### Proprietorship nature of business

Being a proprietorship nature of business, the proprietor can withdraw capital at will.

## Outlook: Stable

SMERA believes that SE will benefit from the experience of its proprietor over the medium term. The outlook may be revised to 'Positive' in case the firm further scales up its operations while improving its profitability and maintaining the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of the firm reports less than envisaged sales or profitability or due to weakening of the capital structure because of more than estimated debt funded borrowings to fund its capex.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	317.32	210.24	80.52
EBITDA	Rs. Cr.	1.11	1.10	0.53
PAT	Rs. Cr.	0.44	0.36	0.14
EBITDA Margin	(%)	0.35	0.53	0.66
PAT Margin	(%)	0.14	0.17	0.17
ROCE	(%)	5.12	8.60	8.85
Total Debt/Tangible Net Worth	Times	0.30	0.81	0.27

PBDIT/Interest	Times	2.36	2.05	1.58
Total Debt/PBDIT	Times	5.89	4.25	4.41
Gross Current Assets (Days)	Days	56	21	96

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

None

### Analytical Approach

SMERA has taken a standalone view of the business and financial risk profile of SE.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto 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
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB/Stable (Assigned)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB/Stable (Assigned)
Bank Guarantee/ Inland letter of Credit/ Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA A4+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4+ (Assigned)

# Inland letter of Credit/ Foreign Letter of Credit of Rs 5.50 crs is a sublimit of Bank Guarantee

## Contacts

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## ABOUT SMERA

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