

Press Release

Sanna Enterprises

November 26, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.20.00 crore bank facilities of Sanna Enterprises (SE).

Sanna Enterprises (SE) is a proprietorship firm registered in 2003 by Ms. Sanchana Gupta. The firm is engaged in trading of food grains and other rationing items, and supplies food items such as pulses, rice, milk, tea, coffee, sugar, refined oil, cereals through tenders to government departments, namely, Public Distribution System 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. Further, it supplies agriculture commodities such as maize and rice to local customers and state authorities in Dimapur (Nagaland).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Sanna Enterprises to arrive at this rating.

Key Rating Drivers

Strengths

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

SE was registered in 2003 by Ms. Sanchana Gupta who has amassed an experience of over a decade and a half in the aforementioned line of business. The firm has an established track record of operations which has helped in building healthy relationships with its customers and suppliers. Acuite believes that the firm will continue to benefit from its established presence in the agro commodities industry and the promoter's demonstrated ability to scale up the operations across various cycles.

- **Working capital efficient nature of operations**

Operations of the firm demonstrate efficiency marked by gross current assets (GCA) of 57 days in FY2019 as compared to 66 days in FY2018. This is on account of debtors' collection period of 55 days in FY2019 as against 50 days in FY2018 and inventory holding period of 0 day in FY2019 as against 6 days in FY2018. However, the average working capital utilization for past six months ended October 2019 stood at ~96 per cent. Furthermore, the current ratio stood moderate at 1.51 times as on 31 March, 2019 as against 1.41 times as on 31 March, 2018.

Acuite believes that the working capital operations of SE will continue to remain efficient over the medium term on account of efficient debtors' collection period.

Weaknesses

- **Below average financial risk profile**

SE has below average financial risk profile marked by modest net worth, high gearing and modest debt protection metrics. The net worth of the firm stood at Rs.12.17 crore as on 31 March, 2019 as against Rs.11.58 crore as on 31 March, 2018. The net worth levels have remained modest due to low operating margins, which has resulted in limited accretion to reserves over the last three years through FY 2019. Though, the revenues of the firm are expected to remain in the range of ~Rs.408.83 crore to Rs.463.96

crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Acuite expects the net worth to remain modest in the range of ~Rs.13.00 crore to Rs.15.28 crore over the medium term, in the absence of any equity infusion by the promoter.

The gearing level (debt-equity) stood at 1.94 times as on 31 March, 2019 as against 1.93 times as on 31 March, 2018. The total debt of Rs.23.66 crore as on 31 March, 2019 consists of long term borrowings of Rs. 16.72 crore and working capital requirements of Rs. 6.95 crore. The interest coverage ratio (ICR) stood at 2.50 times in FY2019 as against 2.44 times in FY2018. TOL/ TNW (Total outside liabilities to total net worth) ratio stood at 4.84 times in FY2019 and 6.02 times in FY2018. Debt to EBITDA stood at 15.94 times in FY2019 as against 15.29 times in FY2018.

Acuite believes that the financial risk profile of the firm is likely to remain below average over the medium term, on account of modest net worth and below average debt protection metrics, and requires improvement for sustenance of the rating.

• **Competitive and fragmented industry**

The firm operates in a highly competitive and fragmented industry characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

Rating Sensitivities:

- Substantial improvement in EBITDA margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

Not Applicable

Liquidity position: Average

The firm has average liquidity marked by average net cash accruals to its maturing debt obligations. SE generated cash accruals of Rs.0.89 crore for FY2019, with debt repayment obligations of Rs.0.44 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.1.07 crore to Rs.1.47 crore during 2020-22 against debt repayment obligations of Rs. 0.44 crore each year in the same period. The firm's working capital operations are efficient, marked by GCA of 57 days for FY2019. SE maintains cash and bank balances of Rs.0.73 crore as on 31 March, 2019. The current ratio stood at 1.51 times as on 31 March 2019.

Acuite believes that the liquidity of the firm is likely to remain average over the medium term on account of average cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that SE will maintain a "Stable" outlook on account of its experienced management. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if the company generates lower-than-anticipated cash accruals as a result of sharp decline in operating margins or further stretch in its working capital cycle, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	408.83	403.53	317.27
EBITDA	Rs. Cr.	1.37	1.29	1.11
PAT	Rs. Cr.	0.64	0.68	0.61
EBITDA Margin	(%)	0.33	0.32	0.35
PAT Margin	(%)	0.16	0.17	0.19
ROCE	(%)	3.55	3.73	6.84
Total Debt/Tangible Net Worth	Times	1.94	1.93	1.87
PBDIT/Interest	Times	2.50	2.44	2.36
Total Debt/PBDIT	Times	15.94	15.29	16.62
Gross Current Assets (Days)	Days	57	66	56

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.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
01-Aug-2019	Overdraft	Long term	5.00	ACUITE BB (Indicative)**
	Proposed Secured Overdraft	Long term	5.00	ACUITE BB (Indicative)**
	Bank guarantee*	Short term	5.50	ACUITE A4+ (Indicative)**
	Proposed Bank Guarantee	Short term	4.50	ACUITE A4+ (Indicative)**
23-May-2018	Overdraft	Long term	5.00	ACUITE BB/ Stable (Assigned)
	Proposed Overdraft	Long term	5.00	ACUITE BB/ Stable (Assigned)
	Bank Guarantee/ Inland letter of Credit/ Foreign Letter of Credit*	Short term	5.50	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short term	4.50	ACUITE A4+ (Assigned)

* Inland letter of Credit/ Foreign Letter of Credit of Rs 5.50 crore is a sublimit of Bank Guarantee

**The issuer did not co-operate; based on best available information.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB/Stable (Reaffirmed)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

* Inland letter of Credit/ Foreign Letter of Credit of Rs 7.00 crore is a sublimit of Bank Guarantee

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About Acuité Ratings & Research:

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