

Press Release

Sanna Enterprises

April 26, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	10.00	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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) on the Rs.20 crore bank facilities of Sanna Enterprises. The outlook is '**Stable**'.

The rating on SE takes into account the sound business position of the firm as reflected from its growing revenue trend in current year coupled with management's long track record in the sector and reputed base of clientele. The rating also draws comfort from the efficient working capital management supported by minimum inventory holding and low debtors. These strengths are however, partly constrained by the leveraged capital structure, thin operating margins inherent in the trading nature of the business, and intense competition, given the low entry barriers.

About the Company

Established in 2003, Sanna Enterprises (SE) is a Nagaland based proprietorship firm promoted 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 and cereals to private players and even to government departments, namely, The Director General Assam Rifles, Indian Army and Indian Navy. Additionally, the firm has been engaged in trading of solar equipment and street lights. It also operates food outlets in Imphal, Jorhat and Kullu Airport since 2019.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SE to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management

Ms. Sanchana Gupta, the proprietress, has an experience of about seventeen years in the trading industry. The long record of accomplishment and experience of promoter has helped the firm to win many tenders of government organizations and establish a healthy relationship with its customers and suppliers that will continue to support the business risk profile over the medium term. Acuité believes an experienced management team and firm tie-ups with vendors has aided in adding new customers and achieving a healthy revenue growth in FY21, since revenue grew to Rs. 172.28 Cr in FY2021 as compared to revenues of Rs122.73 Cr in FY2020. The firm has achieved revenues of Rs ~190 Cr till March 2022(Provisional).

- **Efficient working capital management**

The efficient working capital management of the firm is marked by comfortable Gross Current Assets (GCA) of 56 days in as on March 31, 2021 as compared to 95 days as on March 31, 2020 owing to order-backed purchases, minimum inventory holding, and supply to customers against payment security. The inventory period stood low at 13 days as on 31st March 2021 against 16 days in the previous year. Further, the receivables cycle has improved as the debtor days improved to 26 days as on March 31, 2021 as against 60 days as on 31st March 2020. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and low inventory levels over the medium term.

Weaknesses

- **Below Average financial risk profile**

The firm's below average financial risk profile is marked by low net worth, modest gearing and moderate debt protection metrics. Further, its capital structure remains leveraged, characterised by the gearing of 1.52 times as on March 31, 2021, because of the firm's low net worth base of Rs.13.10 Cr as on March 31, 2021. The debt is primarily working capital in nature further supported by the infused interest-bearing unsecured loans of the promoter to manage the increased working capital requirements. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.63 times as on March 31, 2021 as against 2.14 times as on March 31, 2020. The moderate debt protection metrics of the firm is marked by Interest Coverage Ratio (ICR) at 1.48 times in FY 2021 as against 1.35 times in FY 2020; and Debt Service Coverage Ratio (DSCR) at 1.03 times in FY 2021 as against 1.01 times in FY 2020. The thin profit margins kept the credit metrics at moderate level, given the inherent trading nature of its operations. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.02 times as on March 31, 2021. Acuité believes that even though SE's low net worth makes the firm less resilient to withstand a sustained period of business downturn, the financial risk profile of the firm will improve going forward along with an expected improvement in margin and scale.

- **Thin operating margin and susceptible to raw material price fluctuation amid intense competition**

The industry is highly fragmented and competitive, with a large number of unorganised players in the market and low entry barrier limits the pricing flexibility and bargaining power of the players. Further price of agro commodities were volatile in past which impacted operating margin of firm. However, it continues to be low owing to the trading nature of operations. The operating margin of the firm decreased to 0.74 per cent as on 31st March, 2021 as compared to 1.31 per cent in the previous year. Since, freight costs are an important element in the overall cost structure of the firm, the geographic proximity plays an important role in the acquisition of clients aligning with the customers' supply chain systems. The firm had to face logistical challenges by paying higher freight costs to prevent supply chain disruption amid the evolving Covid-19 scenario. The PAT margins also marginally declined to 0.13 per cent in FY2021 as against 0.17 percent as on FY2020.

Rating Sensitivities

- Improvement in the capital structure
- Sustenance of working capital operations
- Significant improvement in operating margins

Material covenants

None

Liquidity Position: Stretched

Liquidity of the firm is stretched on account of marginal cash accruals of Rs.0.45 Cr even though the limited external borrowings kept the repayment burden low at only Rs. 0.41 Cr. Further, the fund based limit remained highly utilised at ~85 per cent over the five months ended March, 2022. However, the current ratio also stood comfortable at 2.39 times as on March 31, 2021. The unencumbered cash and Bank balance stood at Rs. 1.59 Cr in FY21. The working capital management of the company is also satisfactory as reflected by Gross Current Assets (GCA) of 56 days as on March 31, 2021 as against 95 days as on March 31, 2020. Acuite believes that going forward the firm will meet its near-and medium-term commitments through internal sources of cash and equity infusion by the proprietor.

Outlook: Stable

Acuite believes that the firm will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the promoters and efficient working capital management. The outlook may be revised to 'Positive' if the firm achieves substantial improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or financial risk profile leading to deterioration in liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	172.28	122.73
PAT	Rs. Cr.	0.23	0.21
PAT Margin	(%)	0.13	0.17
Total Debt/Tangible Net Worth	Times	1.52	1.63
PBDIT/Interest	Times	1.48	1.35

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Feb 2021	Proposed Bank Facility	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	7.00	ACUITE BB Stable (Reaffirmed)
26 Nov 2019	Proposed Secured Overdraft	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
	Secured Overdraft	Long Term	7.00	ACUITE BB Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	3.00	ACUITE A4+ (Reaffirmed)
01 Aug 2019	Secured Overdraft	Long Term	5.00	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	5.50	ACUITE A4+ (Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	4.50	ACUITE A4+ (Issuer not co-operating*)
	Proposed Secured Overdraft	Long Term	5.00	ACUITE BB (Issuer not co-operating*)
23 May 2018	Secured Overdraft	Long Term	5.00	ACUITE BB Stable (Assigned)
	Proposed Secured Overdraft	Long Term	5.00	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	5.50	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	4.50	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ Reaffirmed
Canara Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ Reaffirmed

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Srijita Chatterjee Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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