



Press Release
Sanna Enterprises
July 17, 2023
Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|------------------------------------|----------------------------|
| Bank Loan Ratings | 8.10 | ACUITE BB Stable Reaffirmed | - |
| Bank Loan Ratings | 11.90 | - | ACUITE A4+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 20.00 | - | - |

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**'.

Rationale for rating reaffirmation

The SE rating considers stable business risk profile reflected by revenue of Rs. 189.27 Cr in FY2023 as against Rs.187.82 Cr in FY2022. The rating also factors the management's extensive experience in the industry and the company's reputable customer base. Additionally, the rating is positively influenced by the effective management of working capital, including minimal inventory and low outstanding debts. However, the rating is constraint on account of below average financial risk profile marked by low networth, thin operating margins due to the trading nature of the business, and the presence of intense competition resulting from 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

- Long operational track record with experienced management

The proprietor of the firm, Ms. Sanchana Gupta, boasts a valuable seventeen-year background in the trading industry, contributing significantly to the firm's success. Acuite

recognizes the promoter's noteworthy accomplishments and proficiency, which have facilitated the company's attainment of multiple government tenders and the establishment of robust relationships with customers and suppliers. These elements will persistently bolster the

business's risk profile in the medium term.

Moreover, in FY2023, the firm generated revenues of Rs. 189.27 Cr, reflecting a growth compared to Rs. 187.82 Cr in FY2022. This consistent revenue expansion can be attributed to the company's expanded geographical presence and the acquisition of new customers through tender participation.

- **Efficient working capital management**

The efficient working capital management of the firm is marked by comfortable Gross Current Assets (GCA) of 41 days in as on March 31, 2023 as compared to 54 days in as on March 31, 2022 owing to order-backed purchases, minimum inventory holding, and supply to customers against payment security. The inventory period stood low at 4 days as on 31st March 2023 against 1 days as on 31st March 2022. Further, the receivables cycle has improved as the debtor days improved to 34 days as on March 31, 2023 as against 49 days as on March 31, 2022. 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

- **Thin operating margin**

The operating margin of the firm remain thin and stood at 0.83 per cent as on 31st March, 2023 as compared to 0.79 per cent as on 31st March, 2022. The thin margins are thin on account of high freight costs and remain 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 PAT margins stood at 0.17 per cent in FY2023 as against 0.15 per cent in FY2022. The Return on Capital Employed (ROCE) of the firm stood comfortable at 6.13 per cent in FY2023 as against 4.93 per cent in FY2022.

- **Below average financial risk profile**

The financial risk profile of the firm remains below average marked by low net worth, comfortable gearing and moderate debt protection metrics. The tangible net worth of the firm marginally decreased to Rs.12.23 Cr. as on 31 March 2023 as compared to Rs.12.33 Cr. as on 31 March 2022 due to decrease in the partners' capital account. Furthermore, its capital structure remains leveraged, characterised by the gearing of the firm stood comfortable at 0.76 times as on 31 March 31, 2023 as against 1.18 times as on March 31, 2022. The Interest coverage ratio (ICR) remained moderate and stood at 1.45 times for FY2023. The debt service coverage ratio (DSCR) of the firm stood at 0.28 times in FY2023. The thin profit margins kept the credit metrics at moderate level, given the inherent trading nature of its operations. The net cash accruals to total debt (NCA/TD) stood at 0.06 times in FY2023. Going forward, Acuité believes that going forward the financial risk profile will remain below average over the medium term, in absence of any major debt funded capex plans.

- **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.

Rating Sensitivities

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

Material covenants

None

Liquidity Position

Stretched

The firm has stretched liquidity profile marked by marginal cash accruals of Rs.0.53 Cr and the repayment at Rs. 4.91 Cr over the same period. The excess amount is repaid from the internal accruals of the firm. Further, the fund based limit remained highly utilised at ~99.24 per cent over the six months ended April, 2023. The unencumbered cash and Bank balance stood at Rs. 0.25 Cr in FY2023. However, the current ratio also stood comfortable at 1.56 times as on March 31, 2023. The efficient working capital management of the firm is marked by comfortable Gross Current Assets (GCA) of 41 days in as on March 31, 2023 as compared to 54 days in as on March 31, 2022. Acuité believes that going forward the firm will meet its near- and medium-term commitments through internal sources of cash.

Outlook: Stable

Acuité 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 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 189.27 | 187.82 |
| PAT | Rs. Cr. | 0.31 | 0.29 |
| PAT Margin | (%) | 0.17 | 0.15 |
| Total Debt/Tangible Net Worth | Times | 0.76 | 1.18 |
| PBDIT/Interest | Times | 1.45 | 1.41 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 26 Apr 2022 | Proposed Bank Facility | Long Term | 3.00 | ACUITE BB Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A4+ (Reaffirmed) |
| | Secured Overdraft | Long Term | 7.00 | ACUITE BB Stable (Reaffirmed) |
| | Proposed Bank Facility | Short Term | 3.00 | ACUITE A4+ (Reaffirmed) |
| 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) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|-----------------------------------|------------------|----------------|----------------|------------------|-------------------|---------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 9.00 | ACUITE A4+ Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 7.00 | ACUITE BB Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 2.90 | ACUITE A4+ Reaffirmed |
| State Bank of India | Not Applicable | Working Capital Term Loan | Not available | Not available | Not available | Simple | 0.48 | ACUITE BB Stable Reaffirmed |
| State Bank of India | Not Applicable | Working Capital Term Loan | Not available | Not available | Not available | Simple | 0.62 | ACUITE BB Stable Reaffirmed |

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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