

## Press Release

### Stagot Potatoes Product LLP

September 03, 2019



#### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 9.99 Cr.
<b>Long Term Rating</b>	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B/Stable)

\* Refer Annexure for details

#### Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) from **ACUITE B/Stable** on the Rs. 9.99 crore bank facilities of STAGOT POTATOES PRODUCT LLP. The outlook is '**Stable**'.

The rating upgrade is on account of consistent revenue growth with improvement in profit margins demonstrated by wide distribution network and diverse channelising product catering to various sectors. The revenues of the firm have increased to Rs.13.77 crore for FY2019 (Provisional) from Rs.2.96 crore in the previous year. Acuité expects the revenues to grow in near to medium term. Further, it is expected that the financial risk profile and debt protection metrics of the company will remain healthy with adequate liquidity position.

Stagot Potatoes Product LLP, established in 2015, is a partnership firm promoted by Mr. Bharat Chelabhai Gothi, Mr. Prakash Davabhai Patel and Mr. Harshad Shivram Patel. The firm is engaged in the manufacturing of potato starch, which has applications in different industries such as Food, Pharma, Adhesives, Textiles, Paper, among others. The manufacturing unit has installed capacity of 7200 metric tonnes.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of Stagot Potatoes Product LLP to arrive at the rating.

#### Key Rating Drivers

##### Strengths

###### • Proximity to raw materials

The firm has its manufacturing unit in North Gujarat, one of the major potato producing and processing hubs in India. Hence, the firm benefits from proximity to raw materials.

###### • Moderate financial risk profile

SPPL's financial risk profile is moderate, marked by a moderate networth, gearing and average debt protection metrics. SPPL's networth is moderate estimated at around Rs.3.20 crore as on March 31, 2019 (Provisional). The networth levels have seen significant improvement over the last three years through FY2019 on account of equity infusion and accretion to reserves during the same period. The leverage levels stood high at 4.87 times as on March 31, 2018 due to nascent stage of operations. The leverage levels improved to around 2.94 times as on March 31, 2019 (Provisional). SPPL's moderate cash accruals to the tune of about Rs.2.27 crore have supported in minimizing the reliance on external debt, leading to moderate gearing and debt levels of 2.94 times and Rs. 9.42 crore as on March 31, 2019 (Provisional). SPPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.3.17-3.97 crores, which are comfortable to service its repayment obligations. The revenues of the firm increased to Rs.13.77 crore for FY2019 (Provisional) from Rs.2.96 crore for FY2018, while its operating margins improved to 20.51 per cent for FY2019 as against operating margin loss of 6.46 per cent for FY2018. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.24 times and 4.88 times, respectively.

## Weaknesses

### • Working capital intensive nature of operations

SPPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 177 days as on March 31, 2019 (provisional). The firm maintains potato seeds for entire year so the inventory days are high at 177 days as on March 31, 2019 as against 538 days as on March 31, 2018. Further, it allows a credit period of 30-40 days to its customers to penetrate more into newer territories. SPPL's working capital limits over the last twelve months period was utilised at an average of 95 per cent. Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company.

### • Volatility in raw material prices

The purchase and selling prices depend on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of potato prices further impacts profitability.

## Liquidity Position

SPPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.2.27 crore for 2019 (Provisional), while its maturing debt obligations were Rs.1.20 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.3.17-4.32 crore during 2020-22, while its repayment obligations are estimated to be around Rs.1.26-1.32 crore. The firm's operations are working capital intensive as marked by Gross Current Assets (GCA) of 177 days in FY 2019(Provisional). The working capital borrowings remains fully utilized for period ended August 2019. The current ratio of the firm stood healthy at 1.14 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual and no major capex over the medium term.

## Outlook: Stable

Acuité believes that Stagot Potatoes Product LLP will maintain a 'Stable' outlook over the medium term owing to its experienced management and increased demand of product. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue, while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position.

## About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	13.77	2.96	0.60
EBITDA	Rs. Cr.	2.82	-0.19	-0.01
PAT	Rs. Cr.	1.05	-2.35	0.00
EBITDA Margin	(%)	20.51	-6.46	-0.84
PAT Margin	(%)	7.66	-79.25	-0.55
ROCE	(%)	12.94	-11.93	-0.06
Total Debt/Tangible Net Worth	Times	2.94	4.87	1717.77
PBDIT/Interest	Times	4.88	-0.21	0.00
Total Debt/PBDIT	Times	3.33	-54.69	-2260.51
Gross Current Assets (Days)	Days	177	538	3532

## 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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
15-June-2018	Term Loan	Long Term	7.55	ACUITE B / Stable (Assigned)
	Cash Credit	Long Term	2.44	ACUITE B / Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.55	ACUITE B+ / Stable (Upgraded from ACUITE B /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.44	ACUITE B+ / Stable (Upgraded from ACUITE B /Stable)

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**About Acuité Ratings & Research:**

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