

Press Release

Swastik Agro Foods

August 16, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.8.00 Cr.
Long Term Rating	ACUITE B/Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE Single B**) on the Rs.8.00 crore bank facilities of Swastik Agro Foods (Swastik). The outlook is '**Stable**'.

Swastik Agro Foods was established in the year 2015, as a partnership firm by Mr. Deepak Chaudhary and his mother Mrs. Raj Bala. The firm is engaged in processing of Liquid Glucose (non-medicinal use) with a processing capacity of 4 metric tonnes per hour (tph). The firm's manufacturing facilities are located at Meerut, Uttar Pradesh. The firm started its commercial production in July, 2017.

Key Rating Drivers:

Strengths:

- Experienced Partners**

Swastik promoters' are into the business of beekeeping for over two decades. To diversify, they ventured into liquid glucose processing unit in Meerut in Uttar Pradesh, by investing about Rs.5.65 crores. Originally envisaged to commence the project in November 2016, it got delayed and commenced operations in July 2017. Swastik enjoys the benefit of proximity to the key raw materials (Rice, Sugar, Wheat) cultivating regions which ensures uninterrupted supply of raw materials at cheaper cost. The experienced management in the related industry, local presence helped the firm in stabilisation of its operations. The firm has reported revenues of Rs.5.7 crores (provisional) for about 8 months of operations in FY2018. Acuite believes that Swastik is expected to benefit from the promoter's business, raw material proximity and healthy demand for the product in improving its business risk profile over the medium term.

Weaknesses:

- Below Average financial profile**

The firm's financial risk profile is marked by high gearing (debt-to-equity), high total outside liabilities to total net worth (TOL/TNW) and below-average debt protection metrics. Its net worth is modest at about Rs.1.43 crore (Provisional) as of March 31, 2018, which is low on account of modest accretion to reserves due to nascent stage of operations. TOL/TNW is high at 4.43 times (Provisional) as of March 31, 2018. The gearing is high at 3.80 times as of March 31, 2018 (Provisional). The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are at 1.43 times and 0.02 times respectively for FY2018(Provisional). Acuite believes that the financial risk profile is expected to be at similar levels over the medium term, due to modest scale of operations and low cash accruals vis-à-vis its repayment obligations and its intensive working capital requirement.

- Working intensive nature of its operations**

Working capital cycle is estimated to be driven by large inventory of 3-4 months. With low accruals and high incremental working capital requirements, the dependence on the bank facilities is expected to remain high; which is evident from utilisation of its working capital limits of Rs.2.00 crore of cash credit at about 83 percent over six months through April 2018. Acuite believes that Swastik's operations continue to be working capital intensive over the medium term marked by high inventory levels and receivable days of about 50.

Analytical Approach

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

Outlook: Stable

Acuite believes that the outlook on Swastik will remain 'Stable' over the medium term on account of the experience of the promoters. The outlook may be revised to 'Positive' in case the firm registers more-than-expected revenues while maintaining its profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory levels or lower-than-expected cash accruals resulting in stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)
Operating Income	Rs. Cr.	5.74
EBITDA	Rs. Cr.	0.44
PAT	Rs. Cr.	0.54
EBITDA Margin	(%)	7.64
PAT Margin	(%)	(9.43)
ROCE	(%)	(6.85)
TOL/Tangible Net Worth	Times	4.43
Gross Current Assets (Days)	Days	221

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>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B / Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Sri Hari Adari Head - Rating Operations Tel: +91 40-4027 4590 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Sr. Rating Analyst - Rating Operations Tel: +91 40-4005 5452 bhavanisankar.oruganti@acuiteinratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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