

Press Release

Shine Agrotechnology Private Limited

August 01, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook : Stable (Upgraded from ACUITE BB+)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.30.00 crore bank facilities of Shine Agrotechnology Private Limited (SAPL). The outlook is '**Stable**'.

The rating upgrade is driven by improvement in financial risk profile on account healthy revenue growth and consistent improvement in profitability of the company. The revenues have grown at a CAGR of ~72 per cent from FY2016-2019. The revenues of the company stood at Rs.273.82 crore in FY2019 (Prov.) against Rs.53.54 crore in FY2016. The operating margins improved to 3.34 per cent in FY2019 (Prov.) from 3.04 per cent in FY2017.

Incorporated in 2014, the Mumbai based company is promoted by Mr. Balan M Thevar. The company is engaged in farm produce and trading of agro products such as rice, polished and semi-polished tur dal, pulses, oil cake, de-oil cake, roasted grams, and fruits among others. SAPL owns land of 123 acres in Tirunelveli district of Tamil Nadu.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoters and healthy growth in the scale of operations**

The company is founded by Mr. Balan M Thevar (Director) having an experience of over a decade in the agro industry. The promoters Mr. Balan M Thevar and Mr. Pusparaj Thiagaraj are second generation agriculturists from Tamil Nadu with a land bank of 123 acres in the company's name. The company is engaged in livestock integrated organic farming and has plantations of 6000 coconut trees, 5000 amla trees, 3000 lemon trees, 4800 teak trees, 15000 banana trees and 2800 mango trees.

SAPL commenced its operations from August 2014 with agriculture activities, thereby reporting revenue of Rs. 3.01 crore in FY2015 which has grown to Rs. 273.82 crore in FY2019 (provisional). The growth is derived from trading of agricultural commodities which contributed 97 percent of the total income in FY2018. The company has orders in hand of ~Rs. 50.00 crore, which is to be executed within next 2-3 months.

Acuite believes that SAPL's business risk profile will be supported by promoters' expertise and extensive experience in the industry along with strong asset position to carry out its agricultural operations.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate tangible net worth, moderate debt protection measures and low gearing. The net worth of the company stood around Rs.35.72 crore in FY2019 (Prov.) as against Rs.30.41 crore in FY2018. Tangible net worth includes Rs. 8.40 crore of quasi equity. The company has followed a conservative leverage policy as reflected by average gearing of 0.68 times over the last three years through 2017-19. Going forward, the gearing is expected to remain at similar levels owing to debt funded capex.

Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.39 times as on 31 March, 2019 (Prov.) as against 0.98 times as on 31 March, 2018 and is estimated to remain under 1.00 time over the medium term. The increasing revenue levels coupled with stable operating margins have resulted in moderate debt protection metrics. Interest Coverage Ratio (ICR) declined to 3.74 times as on March 31, 2019 (Prov.) as against 4.56 times on March 31, 2018. Debt Service Coverage Ratio (DSCR) declined to 3.31 times as on March 31, 2019 (Prov.) as against 4.08 times as on March 31, 2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.21 times as on March 31, 2019 (Prov.).

Acuite believes that the financial risk profile of SAPL will continue to remain moderate over the medium term on account of healthy scale of operations, stable profitability, funding support from promoters and conservative financial policy.

Weaknesses

- **Business risk profile exposed to customer concentration and agro climatic risks**

SAPL's business risk profile is exposed to customer concentration risk as more than 55 percent of the trading revenue is generated from a single major customer - K.P.R. Agrochem Limited. This is likely to impact the business risk profile of the company. The company generates revenues from agricultural activities along with trading of agro commodities such as maize, rice, wheat and pulses among others. In the past, climate variability and climate extremes have already had impact on agricultural production systems. This makes the company's business and financial risk profile susceptible to agro climatic risks.

Acuite believes that the company's ability to reduce customer concentration will remain critical to maintain stable business risk profile.

- **Thin margins from trading segment**

The operating margins (EBIDTA) stood at 3.34 percent in FY2019 (Provisional) from 3.19 percent in FY2018. The Profit after tax margins (PAT) stood at 1.95 percent in FY2019 (Provisional) from 1.94 percent in FY2018. Majority of the profitability is contributed by core agricultural activity and the profitability from trading activities is observed to be marginal.

- **Highly competitive and fragmented industry**

The agro processing industry is highly competitive and fragmented with several organised and unorganised players. The intense competition and low value addition in the agro processing industry has resulted in low operating margins.

Liquidity Position:

Liquidity of SAPL is adequate as evident by net cash accruals in the range of Rs.4.00-6.00 crore through FY2017-19. The cash accruals of the company are expected to improve further and remain in the range of Rs.6.00-10.00 crore sufficient to service repayment obligations. The company's working capital operations are well managed as marked by gross current asset (GCA) days of 96 in FY2019 (Prov.). The cash credit limit in the company remained fully utilised during the last 6 months ended May 2019. The company maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2019 (Prov.). The current ratio of the company stood moderate at 1.48 times as on March 31, 2019 (Prov.). Acuite believes that the liquidity of the company will remain comfortable over the near to medium term on account of increase in net cash accruals sufficient to meet repayment obligations.

Outlook: Stable

Acuite believes that SAPL will maintain a 'Stable' business and financial risk profile over the medium term on account of healthy business and financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	273.82	236.52	174.81
EBITDA	Rs. Cr.	9.14	7.53	5.31
PAT	Rs. Cr.	5.35	4.58	3.68
EBITDA Margin	(%)	3.34	3.19	3.04
PAT Margin	(%)	1.95	1.94	2.11
ROCE	(%)	14.01	14.52	14.55
Total Debt/Tangible Net Worth	Times	0.81	0.77	0.46
PBDIT/Interest	Times	3.74	4.56	7.50
Total Debt/PBDIT	Times	3.16	3.09	2.22
Gross Current Assets (Days)	Days	96	72	59

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading entities - <https://www.acuite.in/view-rating-criteria-6.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. Crore)	Ratings/Outlook
10-Sep-2018	Cash Credit	Long Term	17.50	ACUITE BB+ / Stable (Assigned)
	Term Loans	Long Term	0.98	ACUITE BB+ / Stable (Assigned)
	Overdraft	Long Term	5.00	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	1.52	ACUITE BB+ / 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50*	ACUITE BBB- / Stable (Upgraded from ACUITE BB+)
Term Loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB+)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB- / Stable (Upgraded from ACUITE BB+)

*ILC/FLC of Rs.10.00 crore is a sublimit of CC.

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