

Press Release

Sri Sainath Industry Private Limited

April 01, 2021



Rating Assigned

Total Bank Facilities Rated	Rs.41.25 crore
Long Term Rating	ACUITE BBB/ Stable (Assigned)

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.41.25 crore bank facilities of Sri Sainath Industries Private Limited (SSIPL). The outlook is '**Stable**'.

The rating on SSIPL takes into account the strong business profile of the Sainath Group and its revenue diversity across many Asian and African countries. The rating is also supported by its healthy financial risk profile and efficient working capital management. These strengths are however, partly offset by susceptibility to agro climatic risk, regulatory risk and forex fluctuation risk.

About the company

Incorporated in 2007, Sri Sainath Industries Private Limited (SSIPL), is a well-established exporter of Indian non-basmati rice. The company is a three star export house recognized by the Ministry of Commerce and Industry. The company procures rice from the local players and BI and exports to different countries of Asia and Africa.

About the Group

Sainath group is a Raipur based group engaged in rice milling and trading. The group consists of Bhagwati Industries (BI) and Sri Sainath Industry Private Limited (SSIPL). The group was started by Mr. Rameshwar Das Agarwal and currently the overall operations of the group are managed by the second and third generation of the Agarwal family along with a set of experienced professionals.

Established in 1990, Bhagwati Industries (BI) is a partnership firm, engaged in rice milling. Its manufacturing facilities are situated in Raipur with installed capacities of 24 MT per hour. The operations are managed by Mr. Rajesh Kumar Agrawal, Mr. Rohit Agrawal and Mr. Anand Kumar Agarwal and other family members.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of BI and SSIPL, together known as Sainath Group, to arrive at this rating. The consolidation is on account of common promoters, similar line of business and significant operational linkages between them. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The promoters of the group, Mr. Rohit Agrawal and Mr. Anand Kumar Agarwal have more than three decades of experience in processing and trading of rice. Acuité believes the long track record of operations and experience of management has helped the company to develop a healthy relationship with its customers and suppliers and will continue to support the business risk profile over the medium term.

- **Healthy financial risk profile**

The group's healthy financial risk profile is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the group increased to Rs.56.70 crores as on March 31, 2020, compared to Rs.49.57 crores on March 31, 2019 backed by accretion to reserves. Acuité has considered unsecured loans of Rs.10.22 crores as on March 31, 2020 as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the group stood healthy at 0.42 times as on March 31, 2020 as against 0.85 times as on March 31, 2019. The debt of Rs.23.95 crores consists of long term debt of Rs.11.35 crores, short term debt of Rs.10.75 crores and current maturity of term loan of Rs.1.85 crores as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at

0.77 times as on March 31, 2020 as against 1.36 times as on March 31, 2019. The debt protection metrics of the group is marked by Interest Coverage Ratio at 2.54 times in FY2020 compared to 2.70 times in FY2019 and Debt Service Coverage Ratio at 1.71 times in FY2020 compared to 2.22 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times in FY2020 against 0.13 times in FY2019. Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, in absence of any major debt funded capex plans.

• **Working capital efficient operations**

The efficient working capital management of the group is marked by Gross Current Assets (GCA) of 68 days in FY2020 as compared to 71 days in FY2019. The debtor period stood comfortable at 39 days in FY2020 as compared to 51 days in FY2019. The group has a secured credit policy in the form of documents against payments which are realized once goods are received by the customers in the exporting country. On an average 30-45 days are required for the shipment to reach the customer destination. The inventory holding stood at 17 days in FY2020 as compared to 9 days in FY2019. The group maintains minimum inventory as their manufacturing units are located to the close vicinity of rice producing area. Further, majority of the procurement for the export purpose is order backed thereby the group is holding minimum inventory levels. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

Weaknesses

• **Susceptibility to agro climatic risk, regulatory risk and forex fluctuation risk**

The group derives 95 percent of its revenue from exports to Middle East countries such as Saudi Arabia and Dubai along with African countries. As a result the group's revenue profile is exposed to regulatory risk arising from changes in other countries' procurement policies. Further, profitability is susceptible to government policies such as minimum support prices in the domestic market. Increase in minimum support price coupled with any adverse movement in forex rates can impact the price competitiveness vis-a-vis other rice exporting countries. Thus, the volatility in prices is an inherent risk for the company that can affect its revenue and profitability profile. Since paddy is an agro commodity, the group is also exposed to agro climatic risks.

Rating Sensitivity

- Deterioration in working capital management
- Sustenance of the financial risk profile

Material Covenants

None

Liquidity Profile: Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.5.60 crores in FY2020 as against long term debt repayment of Rs.1.42 crores in the last year. The current ratio stood comfortable at 2.19 times as on March 31, 2020 as compared to 1.51 times as on March 31, 2019. The cash and bank balances of the group stood at Rs.1.87 crores as on March 31, 2020 as compared to Rs.0.13 crores as on March 31, 2019. The fund based limit remains utilised at 61 per cent over the nine months ended December, 2020. However, the group has availed both loan moratorium, and covid loan of Rs.7.02 crores. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on Sainath Group will remain 'Stable' over the medium term backed by its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the group registers more than envisaged sales and profitability while maintaining its working capital cycle. The outlook may be revised to 'Negative' in case of the group fails to achieve envisaged revenue and profitability and its working capital cycle gets stretched or its financial risk profile deteriorates in the medium term.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	354.48	425.32
PAT	Rs. Cr.	3.35	3.75
PAT Margin	(%)	0.95	0.88

Total Debt/Tangible Net Worth	Times	0.42	0.85
PBDIT/Interest	Times	2.54	2.70

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation of companies-<https://www.acuite.in/view-rating-criteria-60.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
Oct 08,2020	PCFC/PFC	Long Term	37.50	ACUITE BB+ (Withdrawn)
Jan 13, 2020	PCFC/PFC	Long Term	37.50	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable) *Issuer not cooperating
Nov 1,2018	PCFC/PFC	Long Term	37.50	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore	Ratings/Outlook
PCFC	Not Applicable	Not Applicable	Not Applicable	37.50	ACUITE BBB/ Stable (Assigned)
Working capital term loan	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BBB/ Stable (Assigned)

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About Acuité Ratings & Research:

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