

Press Release

Shinghal Agri Industries Private Limited

August 02, 2021



Rating Upgraded, Reaffirmed, Withdrawn and Assigned

Total Bank Facilities Rated	Rs.13.26 crore
Long Term Rating	ACUITE B+/ Stable (Upgraded)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B Plus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 13.26 crore bank facilities of Shinghal Agri Industries Private Limited (SAIPL). The outlook is '**Stable**'.

The upgrade of rating is on account of strong unexecuted order book position and a significant improvement in profitability margins. The upgrade also factors in healthy debt-protection metrics and the adequate liquidity position. These strengths are partly offset by the working capital intensity in SAIPL's operations and exposure to competition in the industry.

About the company

Shinghal Agri Industries Private Limited (SAIPL), an Odisha based company was incorporated in 2013 and promoted by Mr. Mukesh Kumar Dhandhania and Mr. Sachin Kumar Agarwal. The company is primarily engaged into custom and open milling of paddy and processing of parboiled rice. The company also sells the by-products of rice especially rice bran to various customers.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SAIPL to arrive at the rating

Key Rating Drivers

Strengths

- Experienced management and steady order book**

The key promoters Mr. Mukesh Kumar Dhandhania and Mr. Sachin Kumar Agarwal having a decade of experience, embarked their journey in food processing business by following an ongoing process for conversion of paddy procured by Government of Odisha at Minimum Support Price (MSP) & delivering rice to their ware house every year following an agreement of custom milling for State Government of Odisha. Apart from the existing custom milling agreement with the State Government, the company has an unexecuted open market order book position of Rs.56.81 Cr as on 31st May, 2021 for supplying in the export market.

- Moderate financial risk profile**

The company's moderate financial risk profile is marked by weak albeit improving networth, high gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.4.67 Cr as on March 31, 2021 (provisional) from Rs.3.79 Cr as on March 31, 2020 due to accretion of profits. Gearing of the company stood high at 2.46 times as on March 31, 2021 (provisional) as compared to 2.90 as on March 31, 2020. The debt of Rs.11.47 Cr mainly consists of unsecured loan from directors of Rs. 4.78 Cr., long term debt of Rs. 4.16 Cr, working capital borrowing of Rs. 1.51 Cr, and current maturity of term loan of Rs.1.02 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.98 times as on 31st March, 2021 (prov.) as against 5.03 times as on 31st March, 2020. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 2.28 times and Debt Service coverage ratio at 1.62 times as on 31st March, 2021 (prov.). Net Cash Accruals/Total Debt (NCA/TD) stood at 1.54 times as on 31st March, 2021 (prov.). Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

- **Improvement in profitability margins**

The operating margin of the company increased to 19.25 per cent as on 31st March, 2021 (Provisional) as compared to 12.01 per cent in the previous year. The PAT margins stood at 6.31 per cent in FY2021 as against 1.93 per cent as on FY2020. The Return on Capital Employed (ROCE) of the company stood comfortable at 13.31 per cent as on FY2021 (Provisional) as compared to 9.16 per cent as on FY2020. The increase in profitability margins are primarily on account of better realizations, high demand and better pricing of by-product rice bran along with reduction in employee expenses, administrative and selling overheads.

Weakness

- **Susceptibility to changes in government regulations**

The key determinants of SAIPL's profitability is the minimum support price for paddy and the current market price for rice. Procurement of paddy is seasonal and subject to weather conditions. This exposes the company to risk of limited availability of raw material in case of adverse climatic conditions, leading to fluctuations in paddy and rice prices. Also, the industry is regulated in terms of paddy price, export/import of rice, and rice-release mechanism.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 361 days as on March 31, 2021 (provisional) as against 259 days as on March 31, 2020. The high GCA days are on account of high debtor period which stood at 300 days as on March 31, 2021 as compared to 206 days as on 31st March 2020. The debtors are primarily high due to inherent nature of the business. However, the inventory period stood comfortable at 63 days as on 31st March, 2021 (prov.) against 44 days in the previous year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from the comfortable inventory levels and stretched collection mechanism over the medium term.

- **Intense competition in the industry**

The rice milling business is highly fragmented, comprising numerous organized and unorganized players catering to regional demand. The consequent intense competition may continue to constrain scalability, pricing power and profitability.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by sufficient net cash accruals stood at Rs. 1.71 Cr as on March 31, 2021 (provisional) as against long term debt repayment of Rs. 0.47 Cr over the same period. The current ratio stood comfortable at 1.49 times as on March 31, 2021 (provisional). Further, the company has not availed loan moratorium, but applied for a covid loan of Rs. 0.06 Cr, which has already been repaid. The cash and bank balances of the company stood at Rs.0.12 Cr as on March 31, 2021 (provisional) as compared to Rs. 0.11 Cr as on March 31, 2020. However, the fund based limit remained fully utilized and the non-fund based limit remained moderately utilized at 67 per cent over one year ended June, 2021. The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 361 days as on March 31, 2021 (provisional) as against 259 days as on March 31, 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on SAIPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels

while improving its capital structure through equity infusion. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	14.34	17.91
PAT	Rs. Cr.	0.74	0.35
PAT Margin	(%)	5.16	1.93
Total Debt/Tangible Net Worth	Times	2.46	2.90
PBDIT/Interest	Times	2.28	2.05

Status of non-cooperation with previous CRA

- Care Ratings

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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	Ratings/Outlook
			(Rs. Crore)	
22-May-2020	Cash Credit	Long term	1.00	ACUITE B/ Stable (Upgraded)
	Term Loan	Long term	7.80	ACUITE B/ Stable (Upgraded)
	Working Capital Term Loan	Long term	2.80	ACUITE B/ Stable (Upgraded)
	Funded Interest Term Loan	Long term	0.66	ACUITE B/ Stable (Upgraded)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Reaffirmed)
29-Mar-2019	Cash Credit	Long term	1.00	ACUITE B-/ Stable (Assigned)
	Term Loan	Long term	7.80	ACUITE B-/ Stable (Assigned)
	Working Capital Term Loan	Long term	2.80	ACUITE B-/ Stable (Assigned)
	Funded Interest Term Loan	Long term	0.66	ACUITE B-/ Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Lenders Name	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	Canara Bank	1.50	ACUITE B+/Stable (Upgraded)

Term Loan	31-Dec-2013	7.08%	31-Dec-2023	Canara Bank	3.60	ACUITE B+/Stable (Upgraded)
Working Capital Term Loan	31-Mar-2017	9.00%	31-Mar-2022	Canara Bank	0.56	ACUITE B+/Stable (Upgraded)
Funded Interest Term Loan	Not Applicable	Not Applicable	Not Applicable	Canara Bank	0.66	ACUITE B+ (Withdrawn)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE B+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Canara Bank	2.00	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research

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