Acuite
RATINGS & RESEARCH

Press Release

Sungold Processed Foods

July 02, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs.26.00 Cr.
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of'**ACUITE A4+' (read as ACUITE four plus)** on the Rs.26.00 crore bank facilities of **Sungold Processed Foods**.

Sungold Processed Foods (SPF) is a partnership firm established in 2002, promoted by Mr. Abhishek Sashidharan and his wife Ms. Geetha Sashidharan. The firm is engaged in processing and exporting of mango pulp out of its processing facility located at Bangarupalyam, Chittoor District, Andhra Pradesh. It has processing capacity of 6 Tonnes/hour. Till FY2017, SPF was processing mango pulp on job work basis for its group entity, 'Sungold Tropic Fruit Products Private Limited (STFP)'; however, starting FY2018, SPF is doing end-to-end processing and marketing and discontinued the operations in STFP.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Sungold Processed Foods to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
  The promoters have extensive experience in the agro industry. SPF is an established manufacturer and exporter of mango pulp, having an operational track record of more than a decade. The well-diversified customer base includes Al Rabie Saudi Foods Company, AL Marai Company, AL Rawabi Company, Kuwait Danish Dairy among others; though significant revenue concentration to an extent of 30 per cent lies with a single client, however, longstanding relationship and regular supplies mitigates the same. Acuité believes that promoters' entrepreneurial experience and experienced team is expected to aid in improving its business risk profile over the medium term.

- **Improving financial risk profile**
  The financial risk profile is marked by comfortable gearing (debt-to-equity), total outside liabilities to tangible net worth (TOL/TNW) and debt protection metrics. Gearing and TOL/TNW have improved to 1.12 and 1.73 times as of March 31, 2019 (Provisional) against 1.48 and 2.76 times as of March 31, 2018. The net worth is modest though improved to Rs.4.30 crore in FY2019 (Provisional) as against Rs.3.87crore in FY2018. The firm's debt protection metrics of interest coverage and net cash accruals to total debt (NCA/TD) are comfortable at 3.39 and 0.42 times in FY2019 (Provisional). The firm's cash accruals are expected in the range of Rs.2.00-2.60 crore against maturing obligations Rs. 0.60 crore over next two years. Acuite believes that with moderate accruals to repayment obligations and moderate capex of about Rs.3.5 crores, the financial risk profile is expected to improve slightly over the medium term.

- **Moderate working capital management**
  SPF's operations are efficiently managed with gross current asset (GCA) of about 51 days in FY2019(Provisional) improved from 56 days in FY2018 due to improvement in debtor days from 40 days in FY2018 to 34 days in FY2019(Provisional). Firm allows a credit period of 60 days to its clients and the moderate working capital cycle is reflected by the firm's moderate bank limit utilisation levels at 84 percent for the past six months ended March 2019. Acuité believes that the working capital operations of the firm will remain at these levels over the medium term.

• **Proximity to raw materials Source**
The firm benefits from the proximity of its manufacturing facilities (Located in Chittoor district) to mango growing areas.

Weaknesses

• **Modest scale of operations and seasonal**
Revenues of the firm are modest and stood at Rs.40.05 crore in FY2019 (Provisional), decline from Rs.49.29 crore in FY2018. The revenues are expected to be at modest levels of about Rs. 50-60 crore over the medium term. The ability of the firm to improve the scale of operations while managing working capital operations and stable profitability would be key rating sensitivity factors over the medium term.

• **Exposed to foreign exchange currency risk and dependence on Agro climatic conditions**
Mango, the main raw material required for manufacturing is a seasonal fruit and production of the same is highly dependent on climatic conditions. Thus, adverse climatic conditions may affect the availability of mango and its revenues and business risk profile.

• **Partnership based constitution**
SPF is a partnership firm and hence is exposed to capital withdrawal risk.

Liquidity Position: Moderate

Firm has adequate liquidity marked by its net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.54 to Rs.2.19 crore during the last three years through 2017-18, while its maturing debt obligations of Rs. 1.14 crore. The cash accruals of the firm are estimated to remain around Rs. 2.5- 3.5 crore during 2019-21 while its repayment obligation is estimated to be around Rs. 0.60 Crore. The firm's operations are efficiently managed with gross current asset (GCA) days of 54 in FY 2019. This has led to lower reliance on working capital borrowings; the cash credit limit of the firm remains utilized at 84.00 percent during the last 12 months period ended March 2019. The firm maintains unencumbered cash and bank balances of Rs.0.36 crore as on March 31, 2019 (provisional). The current ratio of the firm stands comfortable at 1.54 times as on March 31, 2019. The firm is likely to incur capex of Rs.3.50 crore over the medium which is likely to be funded by external borrowing and equity in the ratio of 70:30. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals to repayment obligations and seasonal operations.

Outlook: Stable

Acuite believes that SPF will maintain a 'Stable' outlook over the medium term on account of its experienced management in the agro industry. The outlook may be revised to 'Positive' if the firm registers significant growth in its revenue while maintain the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in its revenues or profitability leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY2018 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.29	4.63	4.00
EBITDA	Rs. Cr.	3.60	1.78	1.94
PAT	Rs. Cr.	1.27	0.41	0.33
EBITDA Margin	(%)	7.31	38.56	48.41
PAT Margin	(%)	2.58	8.84	8.23
ROCE	(%)	30.18	7.65	14.72
Total Debt/Tangible Net Worth	Times	1.48	2.43	4.16
PBDIT/Interest	Times	2.44	5.52	4.57
Total Debt/PBDIT	Times	1.54	3.50	4.23
Gross Current Assets(Days)	Days	56	299	192

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

None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading 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)
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
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A4+ (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)