

Press Release

Sungold Processed Foods

September 22, 2020



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.29.61Cr. (Enhanced from Rs.26.00 Cr)
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB-**' (read as ACUITE double B minus) on the Rs.2.61 crore and reaffirmed the short term rating of '**ACUITE A4+**' (read as ACUITE A four plus) on the Rs.27.00 crore bank facilities of Sungold Processed Foods (SPF). The outlook is '**Stable**'.

Established in the year 2002, Sungold Processed Foods (SPF) is engaged primarily in manufacturing and exporting of mango pulp. The firm is based out in Chittoor, Andhra Pradesh. SPF majorly exports to countries like Saudi Arabia, Switzerland, Yemen, Germany and Kuwait. The firm has a capacity of 6000 MT per annum and the utilization is around 4500-5000 MT per annum. SPF is a partnership firm and is promoted by Mr. Abhishek Sashidharan and Ms. Geeta Sashidharan. The firm is currently in the process of setting up a cold storage facility within the company premises.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established presence in the industry**

SPF was established in 2002 and has one manufacturing and processing facility in Chittoor. The firm is headed by Mr. Abhisek Sashidharan, who has over a decade of experience in this line of business. SPF has been able to forge long-lasting relationships and tie-ups with customers and suppliers. The firm derives its income from the sale of mango pulp to various international companies in the food and beverage industry. The firm has associated with its existing customers for more than a decade, which has helped it secure repeat orders.

Acuité believes that SPF will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the firm is moderate, marked by moderate net worth gearing, debt protection metrics and coverage indicators. The net worth of the company is moderate at Rs.8.67 crore as on 31 March 2020 (provisional). The net worth levels have seen significant improvement over the last three years through FY2020 on account of improved profitability. The gearing (debt-equity) deteriorated to 2.35 times as on 31 March 2020 (provisional) as against 1.43 times in previous year mainly on account of increase in short term debt due to stretched debtors position. The total debt of Rs.20.40 crore as on 31 March 2020 (provisional) includes working capital of Rs.16.31 crore, long term debt of Rs.2.09 crore and unsecured loans of Rs.2.00 crore. The net cash accrual to total debt (NCA/TD) and interest coverage ratio for FY2020 (provisional) were moderate at 0.10 and 2.64 times, respectively.

Acuité believes that with moderate accruals to repayment obligations and moderate capex of about Rs.3.72 crore, the financial risk profile is expected to remain moderate over the medium term.

- **Working capital intensive nature of operations**

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 218 days in FY2020 (provisional) as against 226 days in FY2019. These high GCA days emanates from high debtor days of 129 days for FY2020 (provisional) as compared to 142 days for FY2019. The inventory days stood at 90 days for FY2020 (provisional) as compared to 40 days for FY2019. This has led to higher reliance on the working capital borrowings, for which the utilization was more than 85 percent for the past six months ended August 2020.

Acuité believes that the firm's operations are expected to remain working capital intensive in the medium term.

- **Exposed to foreign exchange fluctuations and seasonal nature of business**

The firm's sales are through export to Saudi Arabia, Switzerland, Yemen, Germany and Kuwait thus exposed to fluctuations in foreign currency. The firm enters into forward contracts for hedging its exposure. Operating in a seasonal industry, raw materials are prone to price fluctuations. The firm remains vulnerable to agro-climatic risks as it deals with fruits, i.e. mangoes. Being seasonal, the prices of fruit pulp are vulnerable to the idiosyncrasies of nature.

Liquidity position: Adequate

SPF has an adequate liquidity position marked by healthy cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.2.00-3.06 crore during the last three years through 2019-2020, while its maturing debt obligations were in the range of Rs.0.52 crore. The operations are working capital intensive marked by Gross Current Asset (GCA) of 218 days in FY2020 (provisional) compared to 226 days in FY2019. The average working capital limits utilization stood at more than 85 percent for the past six months ended August 2020. The current ratio stood moderate at 1.18 times as on 31 March, 2020 (provisional). Acuité believes that going forward; the liquidity position of the firm will continue to remain adequate in the medium term.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Any deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuité believes SPF will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established operations and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected cash accruals on the back of sustained growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	34.89	40.27
PAT	Rs. Cr.	1.10	2.18
PAT Margin	(%)	3.14	5.42
Total Debt/Tangible Net Worth	Times	2.35	1.43
PBDIT/Interest	Times	2.64	2.60

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
02-July-2019	Letter of Credit	Short Term	6.00	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Assigned)
	Proposed bank facilities	Short Term	2.00	ACUITE A4+ (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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.00 (Enhanced from Rs.18.00 Cr)	ACUITE A4+ (Reaffirmed)
Term Loan	Oct-2019	Not Applicable	Sept-2025	2.61	ACUITE BB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Enhanced from Rs.6.00 Cr)	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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