

**Press Release**  
**Sungold Processed Foods**

**December 07, 2021**

**Rating Reaffirmed**



Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	27.00	27.00		ACUITE A4+   Reaffirmed
<b>Bank Loan Ratings</b>	2.61	2.61	ACUITE BB-   Stable   Reaffirmed	
<b>Total</b>	-	29.61	-	-

**Rating Rationale**

Acuite has reaffirmed the long term rating of '**ACUITE BB-**' (read as **ACUITE Double B minus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.29.61 crore bank facilities of Sungold Processed Foods (SPF). The outlook is '**Stable**'.

**Rationale for Rating Reaffirmation**

The ratings continue to derive strength from experienced management with established presence in the fruit pulp processing industry, moderate financial risk profile, and comfortable coverage indicators.

The ratings, however, continue to remain constrained by modest scale of operations and deterioration in operating profit margins. SPF's ability to improve scale of operations and operating profitability will remain a key rating sensitivity.

**About the Firm**

Established in the year 2002, SPF is a partnership firm promoted by Mr. Abhishek Sashidharan and Mrs. Geeta Sashidharan. The firm is engaged in manufacturing & exporting of mango pulp. The manufacturing facility is located at Bangarupalyam in Chittoor, Andhra Pradesh, with an installed capacity of 6000 MT per annum and the utilization is around 4500-5000 MT per annum.

**Analytical Approach**

Acuite has considered the standalone business & financial risk profiles of SPF to arrive at the ratings.

**Key Rating Drivers**

**Strengths**

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

Sungold Processed Foods (SPF) was established in 2002 and has one manufacturing and processing facility in Chittoor. The firm is headed by Mr. Abhishek 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 its customers and suppliers. The firm derives its income from the sale of mango pulp to various international companies in the foods & beverages industry. The firm has been associated with its existing customers for more than a decade, which has helped it secure repeat orders. Acuite 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.

### **Moderate financial risk profile albeit comfortable coverage indicators**

The financial risk profile of SPF stood moderate marked by low tangible net-worth base, moderate capital structure and moderate debt coverage indicators. The tangible net-worth base stood low at Rs.9.51 crore as on March 31, 2021 (Prov.) as against Rs.8.46 crore as on March 31, 2020. The capital structure stood moderate with an overall gearing of 1.89 times as on March 31, 2021 (Prov.) as against 1.49 times as on March 31, 2020, whereas the same deteriorated marginally in FY21 (Prov.) over FY20 owing to increase in debt levels on the back of increase in car loans as well as increase in working capital bank borrowings to fund the increase in the working capital requirements. Given the moderate capital structure coupled with moderate profitability, the debt coverage indicators also stood moderate with moderate interest coverage and DSCR of 2.87 times each in FY21 (Prov.) as against 2.40 times each in FY20.

Acuité believes that the financial risk profile of SPF shall continue to remain moderate going forward.

### **Weaknesses**

#### **Modest scale of operations with deteriorating operating profit margins**

The scale of operations of SPF stood small with an operating income of Rs.53.31 crore in FY21 (Prov.) as against Rs.34.30 crore in FY20. The increase in FY21 (Prov.) was owing to excess order receipts from two major customers (both being group companies) than the normal course, on the back of increased business requirements from them. However, the net sales of SPF stood at Rs.26.27 crore in H1FY22, marginally higher than that of Rs.25.30 crore in H1FY21.

SPF's operating profit margin deteriorated to 7.37 per cent in FY21 (Prov.) from 12.40 per cent in FY20. Despite the decrease in the raw material costs, this deterioration in the operating profit margin was owing to higher stock adjustment, since a major portion of the stock of the previous year (valued at relatively higher price) was consumed in that year to fulfil the requirements of the sudden increase in the orders from the aforementioned customers.

Acuité believes that SPF's ability to improve its scale of operations and profitability will remain a key rating sensitivity.

#### **Moderately working capital intensive nature of operations**

The operations of SPF are moderately working capital intensive in nature with a majority of funds of over 40-90 days blocked inventory and over 85-100 days in debtors. The inventory holding and collection period witnessed an improvement in FY21 (Prov.) over FY20 owing to faster inventory turnaround coupled with spillover of deliveries to the beginning of FY21. Given this, the working capital cycle and GCA days also improved from 104 days and 182 days respectively in FY20 to 81 days and 137 days respectively in FY21 (Prov.), whereas the operations continue to remain moderately working capital intensive in nature. Given this, the average packing credit utilization in the last 7 months ended October 2021 stood moderate at 79.50%, whereas the average letter of credit utilization in the last 6 months ended September 2021 stood at 83.97%.

Acuité believes that the operations of SPF shall continue to have moderate working capital intensity.

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

SPF's sales are through exports to Saudi Arabia, Switzerland, Yemen, Germany, Kuwait, etc., thus being exposed to fluctuations in foreign currency. The firm enters into forward contracts for hedging its exposure. On the other hand, operating in a seasonal industry, the raw materials are prone to price fluctuations. Moreover, the firm also remains vulnerable to agro-climatic risks since it deals with mangoes. Being seasonal, the prices of fruit pulp are vulnerable to the idiosyncrasies of nature.

Hence, the ability of SPF to protect its profitability and profit margins in case of any adverse or sharp fluctuations in the exchange rates or mango prices, shall be a key monitorable from the credit perspective.

#### **Partnership nature of constitution**

SPF is exposed to inherent risk of partners' capital being withdrawn at the time of personal

contingency. Due to the partnership nature of constitution, it has restricted access to external borrowing where net-worth as well as credit worthiness of the partners are the key factors affecting credit decision of lenders.

### **Liquidity Position: Adequate**

The liquidity profile of SPF stood adequate marked by moderate working capital efficiency, moderate current ratio, moderate net cash accruals, albeit low free cash & bank balance. The operations of the firm are moderately working capital intensive in nature with GCA days and WC cycle of 137 days and 81 days respectively in FY21 (Prov.) as against 182 days and 104 days respectively in FY20. Given this, the average bank limit utilization in the last 7 months ended October 2021 stood moderate at 79.50 per cent. Moreover, the group generated moderate net cash accruals worth Rs.2.56 crore and Rs.2.64 crore in FY20 and FY21 (Prov.) respectively as against moderate debt repayment obligations worth Rs.0.43 crore and Rs.0.95 crore in those respective years. Moreover, the net cash accruals are expected to be at Rs.2.80-3.15 crore over FY22-FY23, as against debt repayment obligations worth Rs.2.78-1.98 crore over the same period. However, the free cash & bank balance stood low at Rs.0.10 crore as on March 31, 2021 (Prov.) as against Rs.0.01 crore as on March 31, 2020. However, the current ratio stood moderate at 1.46 times as on March 31, 2021 (Prov.) as against 1.26 times as on March 31, 2020.

### **Rating Sensitivities**

- Slower-than-expected scale up of operations or deterioration in profitability
- Significant deterioration in the liquidity position or the overall financial risk profile

### **Material Covenants**

None

### **Outlook: Stable**

Acuité believes that 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 firm's profitability or significant deterioration in the capital structure and liquidity position.

### **Key Financials**

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	54.91	34.96
PAT	Rs. Cr.	1.74	1.64
PAT Margin	(%)	3.17	4.70
Total Debt/Tangible Net Worth	Times	1.89	1.49
PBDIT/Interest	Times	2.87	2.40

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

Not Applicable

### **Any other information**

Not Applicable

### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**  
<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Sep 2020	Letter of Credit	Short Term	7.00	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	20.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	2.61	ACUITE BB-   Stable (Assigned)
02 Jul 2019	Letter of Credit	Short Term	6.00	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	2.00	ACUITE A4+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Term Loan	28-11-2019	11.05	30-09-2025	2.61	2.61	ACUITE BB-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	7.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	20.00	ACUITE A4+   Reaffirmed

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### About Acuité Ratings & Research

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