

Press Release

Tirupati Starch And Chemicals Limited D-

U-N-S® Number: 65-060-7328

July 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 10.00 Cr. bank facilities of Tirupati Starch and Chemicals Limited (TSCL). The outlook is '**Stable**'.

Indore based, TSCL is engaged in the manufacture of various agro-based products such as maize starch, maize gluten, dextrose monohydrates (edible) and poultry feed to name a few. TSCL was incorporated in 1985 by Late Mr. Damodar Modi, Mr. Ramdas Goyal and Mr. Prakash Chandra Bafna.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of TSCL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

TSCL has a long track record in the manufacture of starch-based products, having been promoted by Late Mr. Damodar Modi, Mr. Ramdas Goyal and Mr. Prakash Chandra Bafna in 1985. Mr. Ramdas Goyal has an overall experience of around four decades and continues to be actively involved in the business. Mr. Prakash Chandra Bafna holds an overall experience of around three decades in manufacture and trading of chemicals. Mr. Bafna takes care of procurement of raw material and other purchases. The promoters are supported by Mr. Amit Modi (son of Mr. Damodar Modi) and Mr. Yogesh Kumar Agrawal both of whom hold extensive experience of more than two decades in the business. Extensive experience of the promoter group in the starch business has helped TSCL establish healthy relationships with customers and suppliers in the industry over the years. This is reflected in stable revenue growth marked by turnover of Rs. 227.57 Cr in FY2019 as compared to Rs. 199.78 Cr in FY2018 and Rs. 177.42 Cr in FY2017 on account of both increase in volumes as well as increase in realisations.

Acuite believes that TSCL will be able to sustain its business risk profile which is well supported by its management's experience in the industry.

- Adequate financial risk profile**

The financial risk profile of TSCL is adequate marked by moderate net worth and debt protection measures and gearing. The net worth stood at Rs.29.56 Cr. as on 31 March, 2019 as against Rs.26.32 Cr as on 31 March, 2018. The net worth is inclusive of Rs.8.87 Cr. unsecured and subordinated loans by the promoters to support the incremental working capital requirements. TSCL has followed a moderately conservative financial policy with a significant part of the company's debt coming from promoters and their associates. Total debt of Rs. 49.12 Cr as on March 31, 2019 includes Rs. 37.13 Cr unsecured loans from the promoters, Rs. 4.13 Cr term loans from bank and Rs.7.86 crore of working capital borrowing from the bank. The gearing of TSCL has improved to 1.66 times as on March 31, 2019 as compared to 2.21 times in FY2018 on account of a healthy addition to reserves. Total outside Liabilities/Tangible Net Worth (TOL/TNW) was moderate at 3.68 times as on 31 March, 2019 as against 3.11 times as on 31 March, 2018.

Interest Coverage Ratio (ICR) has improved to 4.55 times in FY2019 and 2.68 times in FY2018. Debt Service Coverage Ratio (DSCR) has also improved to 1.33 times for FY2019 from 1.10 times in FY2018.

Net Cash Accruals/Total Debt (NCA/TD) stood at 0.16 times as on 31 March, 2019 as against 0.11 times as on 31 March, 2018. Acuite believes that the financial risk profile of TSCL will continue to remain adequate over the medium term on account of its improving scale of operations and moderately conservative financial policy.

Weaknesses

- **Moderate working capital management**

The working capital management of TSCL is moderate marked by Gross Current Asset days of 106 in FY2019 as against 75 in FY2018. This inventory holding period stood stable at 31 days in FY2019 as compared to 25 days in FY2018. The payables period has increased to 94 days in FY2019 as compared to 52 days in FY2018 partly on account of substantial fluctuation in raw material prices. Subsequently, due to increase in prices of starch, the receivables period has also increased to 61 days at end FY2019 as compared to 34 days in FY2018. Nevertheless, the average bank limit utilization was satisfactory at ~80 per cent for the last three months ended May 2019. Acuite believes that the ability of TSCL to improve its working capital management will be a key element in its credit profile.

- **Competitive nature of industry; susceptibility to fluctuation in raw material prices**

Starch Industry in India is highly fragmented, marked by presence of a variety of organized and unorganized manufacturers offering different types and derivatives of starch thereby, limiting TSCL's pricing power. Further, TSCL uses maize as the raw material for almost all of its products and the prices of maize are susceptible to volatility due to factors such as weather conditions, revision in minimum support price of maize by the government and demand and supply scenario in the agricultural markets. Thus, the operating performance of TSCL remains susceptible to any adverse changes in these factors.

Liquidity position

TSCL has adequate liquidity marked by healthy net cash accruals as compared to its maturing debt obligations. TSCL generated cash accruals of Rs. 5.72 to 8.06 Cr during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.1.66 to 5.52 Cr over the same period. The cash accruals of TSCL are estimated to remain around Rs. 8.7 to 9.7 Cr during 2019-21 while its repayment obligation is estimated to be around Rs.0.8 to 1.6 Cr. TSCL has moderate dependence on working capital borrowings, as the cash credit limit remains utilized at 80 percent during the last 12 months period ended May 2019. The current ratio is average at 1.16 times as on March 31, 2019. Acuite believes that the liquidity of TSCL is likely to remain adequate over the medium term on account of healthy cash accruals and no major repayments over the medium term.

Outlook: Stable

Acuite believes that TSCL's ratings will maintain a 'Stable' outlook over the medium term on the back of its experienced management and adequate financial risk profile. The outlook may be revised to 'Positive' if TSCL shows improvement in its working capital management and maintains growth in operating revenues. The outlook may be revised to 'Negative' if TSCL experiences lower than expected revenue growth or deterioration in financial risk profile or stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	227.57	199.78	177.42
EBITDA	Rs. Cr.	11.27	10.46	6.75
PAT	Rs. Cr.	3.24	1.77	1.14
EBITDA Margin	(%)	4.95	5.23	3.81
PAT Margin	(%)	1.43	0.89	0.64
ROCE	(%)	8.17	7.67	12.05
Total Debt/Tangible Net Worth	Times	1.66	2.21	2.81
PBDIT/Interest	Times	4.55	2.68	1.94
Total Debt/PBDIT	Times	4.29	5.25	6.45
Gross Current Assets (Days)	Days	106	75	81

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

Not applicable.

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>
- 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
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable

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About Acuite Ratings & Research:

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