

## Press Release

Tirupati Starch and Chemicals Limited

September 14, 2020

Rating Reaffirmed and Withdrawn



<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/ Outlook: Stable (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

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

Further, Acuite has withdrawn the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 2.00 crore bank facilities of TSCL.

Indore based, TSCL is engaged in the manufacturing of various products such as maize starch, maize gluten, dextrose monohydrates (edible), poultry feed etc. 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 profiles of TSCL to arrive at this rating.

### Key Rating Drivers

#### Strengths

##### • Experienced management

TSCL was promoted by Late Mr. Damodar Modi, Mr. Ramdas Goyal and Mr. Prakash Chandra Bafna in 1985. Mr. Ramdas Goyal holds an overall experience of around four decades in the business of Maize Starch, dextrose and other chemicals. Mr. Prakash Chandra Bafna holds an overall experience of around three decades in manufacturing and trading of chemicals. Mr. Bafna takes care of the procurement of raw material and other purchases. The promoters are supported by Mr. Amit Modi and Mr. Yogesh Kumar Agrawal, both of whom hold extensive experience of more than two decades in the business. Extensive experience of the management has helped TSCL establish healthy relationships with customers and suppliers in the industry over the years, which is reflected in stable revenue growth marked by the turnover of Rs. 271.62 Cr in FY2020 as compared to Rs. 227.32 Cr in FY2019 and Rs. 199.78 Cr in FY2018 both on account of increase in volumes as well as prices.

Acuite believes that TSCL will be able to sustain its business risk profile on the back of its management's experience.

##### • Moderate financial risk profile

The financial risk profile of TSCL is moderate, marked by moderate net worth and debt protection measures and gearing. The net worth stood at Rs. 33.42 crore as on 31 March, 2020 as against Rs. 31.21 crore as on 31 March, 2019. The net worth is inclusive of Rs. 11.59 crore unsecured loans by the promoters to support the incremental working capital requirements. TSCL has followed a moderately conservative financial policy as reflected by peak gearing of 0.65 times, as on 31 March 2018, over the last three years through 2018-20. The gearing of TSCL has improved to 0.31 times as on March 31, 2020. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.19 times as on 31 March, 2020 as against 3.43 times as on 31 March, 2019. Interest Coverage Ratio (ICR) stood comfortable at 3.71 times in FY2020 and 4.55 times in FY2019. Debt Service Coverage Ratio (DSCR) has improved to 2.07 times for FY2020 from 1.33 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.57 times as on 31 March, 2020 as against 0.64 times as on 31 March, 2019.

## Weaknesses

### • Moderately Working capital intensive operations

The working capital management of TSCL is moderate marked by Gross Current asset days of 86 in FY2020 as against 106 days in FY2019. This inventory holding period stood stable at 40 days in FY2020 as compared to 31 days in FY2019. The payables period has increased to 149 days in FY2020 as compared to 94 days in FY2019 on account of substantial fluctuation in raw material prices. The receivables period stood at 37 days in FY2020 as compared to 61 days in FY2019 on account of increase in prices of starch. The average bank limit utilization stood at ~70 per cent for the last three months ended July 2020.

Acuite believes that the ability of TSCL to maintain its working capital management will be a factor of key rating sensitivity.

### • Declining profitability

TSCL operates in a highly fragmented and competitive industry, thus limiting its pricing power. Further, prices of maize, which is the primary raw material, are highly dependent on the harvest, which in turn depends on the climatic conditions. The prices for maize had increased abnormally during FY2019-20. Increase in raw material prices and the competitive nature of the industry affected TSCL's profitability. Its operating profit margin declined to 3.08 percent in FY2020 from 4.95 percent in FY2019. Net profitability declined to 0.42 percent in FY2020 from 1.43 percent from FY2019. TSCL's operation remains susceptible to any adverse changes in maize prices.

Acuite believes that the ability of TSCL to improve its profitability will be a factor of key rating sensitivity.

## Liquidity Position: Adequate

TSCL's net cash accruals stand in the range of Rs. 6.00 crore to Rs. 8.00 crore for the period from FY2021-2023 against no repayment in the range of Rs. 0.90 crore to Rs. 1.00 crore for the same period. TSCL's operations remain moderately working capital intensive marked by GCA of 86 days in FY2020 and 106 days in FY2019. The company's bank limit utilization remained moderate at ~70 percent for the period of last three months ended in July 2020. Acuite believes that TSCL will maintain adequate liquidity profile over the medium term on account of moderate bank limit utilization and moderately working capital intensive nature of business.

## Rating Sensitivities

- An improvement in the profitability while maintaining the scale of operations will be a key rating sensitivity.
- Any elongation in the working capital cycle will be a key monitorable.

## Material Covenants

None

## Outlook: Stable

Acuite believes that TSCL will maintain a 'Stable' outlook over the medium term on the back of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if TSCL shows a sustained improvement in its profitability and maintains growth in turnover. The outlook may be revised to 'Negative' if TSCL experiences further deterioration in profitability or deterioration in financial risk profile or stretch in its liquidity.

## About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	271.99	227.57
Profit after Tax (PAT)	Rs. Cr.	1.15	3.24
PAT Margin	(%)	0.42	1.43
Total Debt/Tangible Net Worth	Times	0.31	0.41
Total Debt/PBDIT	Times	3.71	4.55

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

Not applicable

**Any other information**

None

**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 (Rs. Crore.)	Ratings/Outlook
05-Jul-2019	Cash Credit	Long Term	8.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB-/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	Not Available	2.00	ACUITE BBB- (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)

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**About Acuité Ratings & Research:**

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