

Press Release

Sumran Agro Private Limited

November 13, 2020



Rating upgraded & Assigned

| | |
|------------------------------------|--|
| Total Bank Facilities Rated | Rs.25.00 crore |
| Long Term Rating | ACUITE BB/ Stable (Upgraded and Assigned) |

Rating Rationale

Acuité has assigned and upgraded the long term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.25.00 crore bank facilities of Sumran Agro Private Limited (SAPL). The outlook is '**Stable**'.

The rating upgrade is driven by consistent improvement in the business risk profile, reflected from a steady increase in operating revenue and profitability metrics. The operating revenue of the company has grown from Rs.108.76 crores in FY2018 to Rs.127.98 crores in FY2020 at a compounded annual growth rate (CAGR) of 5.57 per cent. SAPL's operating margin has improved from 0.43 per cent in FY2019 to 1.90 per cent in FY2020. Similarly, Profit after Tax (PAT) margin has improved from 0.83 per cent in FY2019 to 1.07 per cent in FY2020. The profitability margins are expected to be maintained at current levels over the medium term. The company continues to draw comfort from its experienced management and long track record of operations.

Incorporated in 2000, Sumran Agro Private Limited, is a Kolkata based company engaged in wholesale and retail trading of tea. Currently, the company is promoted by Mr. Pradeep Kumar Agarwal, Ms. Dipti Agarwal and Ms. Shalini Agarwal. SAPL blends and adds flavour to the tea according to the requirements of the customers. The company procures tea through auction and private purchases and majorly exports to countries including Iran and Russia.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of SAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

SAPL started its operations in 2000. The key promoter of the company, Mr. Pradeep Kumar Agarwal has more than two decades of experience by virtue of his prior employment of being a tea tester. Acuité believes that the extensive experience of the management and long track record of operations has enabled the firm to maintain healthy relationships with their key customers and suppliers.

- **Healthy financial risk profile**

The company's healthy financial risk profile is marked by modest networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company increased to Rs.46.81 crores as on March 31, 2020 from Rs.45.44 crores as on March 31, 2019 due to retention of profits in FY2020. Gearing of the company stood comfortable at 0.35 times as on March 31, 2020 as against 0.07 times as on March 31, 2019. The total debt comprises of unsecured loans taken from directors and corporate bodies which stood at Rs.16.31 crore as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.42 times as on March 31, 2020 as against 0.10 times as on March 31, 2019. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 2.19 times as on March 31, 2020 compared to 3.63 times as on March 31, 2019. Acuité believes that going forward the financial risk profile of the company will remain same due to steady accruals over the medium term.

Weaknesses

- **Working capital intensive operations**

The working capital intensive operations of the company are marked by high Gross Current Assets (GCA) of 167 days in FY2020 as compared to 133 days in FY2019. The high level of GCA days is on account of high inventory period, which stood at 120 days in FY2020 as compared to 36 days in FY2019. The high inventory requirement emanates from their increasing exposure to export markets. The minimum inventory holding period for their export markets is around 120 days. The debtor days improved to 33 days in FY2020 compared to 78 days in FY2019 due to improvement in realization from their export customers. Acuité believes that working capital management of the company will remain the same on account of high inventory levels maintained by the company to cater to the foreign customers.

- **Volatility in tea prices along with forex fluctuation risk**

The prices of tea are linked to the auctioned prices, which in turn, are linked to prices of tea in the international market. Hence, significant price movement in the international tea market may affect SAPL's profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances arising out of both domestic and international scenarios and also the tea prices have a strong linkage with agro-climatic conditions. Moreover, since a major part of revenue comes from exports; hence the company has substantial exposure to foreign exchange fluctuation risk.

Rating Sensitivity

- Improvement of working capital management
- Sustenance of financial risk profile

Material Covenants

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.1.69 crores as on March 31, 2020 as against no debt obligations over the same period. The current ratio stood strong at 19.46 times as on March 31, 2020 as compared to 31.05 times as on March 31, 2019. The company has not availed loan moratorium nor applied for any additional COVID loan. The cash and bank balances of the company stood at Rs.2.43 crores as on March 31, 2020. However, the working capital management of the company is intensive marked by Gross Current Assets (GCA) of 167 days in FY2020 as compared to 133 days in FY2019. Going forward, Acuité believes the liquidity of the company will remain adequate due to adequate accruals in the medium term.

Outlook: Stable

Acuité believes that the outlook of SAPL will remain 'Stable' over the medium term backed by the long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers improvement in the working capital cycle along with sustenance of its financial risk profile and further improvement of revenues and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and stretched working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 127.98 | 120.38 |
| PAT | Rs. Cr. | 1.37 | 1.00 |
| PAT Margin | (%) | 1.07 | 0.83 |
| Total Debt/Tangible Net Worth | Times | 0.35 | 0.07 |
| PBDIT/Interest | Times | 2.19 | 3.63 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.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 |
|--------------|---------------------------------|-----------|------------------|------------------------------|
| 29-August-19 | Bank Overdraft | Long Term | 2.75 | ACUITE BB-/Stable (Assigned) |
| | Proposed | Long Term | 22.25 | ACUITE BB-/Stable (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 |
|------------------------|------------------|----------------|----------------|-------------------------------|--|
| Bank Overdraft | Not Applicable | Not Applicable | Not Applicable | 2.76 | ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE BB/Stable (Assigned) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 10.24 | ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable) |

Contacts

| Analytical | Rating Desk |
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| Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 shubham.ghosh@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

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