

Press Release

Shree Fats and Proteins Private Limited

October 10, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 49.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 49.00 crore bank facilities of Shree Fats and Proteins Private Limited (SFPPL). The outlook is '**Stable**'.

Jaipur-based, Shree Fats and Proteins Private Limited (SFPPL) was incorporated in 1991. Mr. Rajkumar Agarwal, Mr. Sanjay Goenka and Ms. Mona Goenka are current directors of the company. SFPPL is engaged in manufacturing and exports of edible oil, pulses, cereals, rapeseed oil. The company exports to countries such as Indonesia, Thailand and Nepal. The plant is located in Bassi district, Jaipur and the installed capacity is about 500 tonnes per day.

About the group

Shree Fats Group is engaged in the manufacturing of edible oils, pulses, cereals. The group comprises of two companies – Shree Fats and Proteins Private Limited and Perfect Agrofood Private Limited. The promoters of the group are Mr. Rajkumar Goenka, Mr. Sanjay Goenka and Ms. Mona Goenka (SFPPL) and Mr. Kanhaiya Modi and Mr. Sanwar Mal Sigtia (PAPL).

Analytical Approach

To arrive at this rating, Acuite has consolidated the business and financial risk profiles of SFPPL and Perfect Agrofood Private Limited (PAPL), hereinafter referred to as Shree Fats Group. The consolidation is in view of similarity in the line of business and operational synergies among the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management

Mr. Rajkumar Agarwal (Director) and Mr. Sanjay Goenka (Director) have an experience of around two decades in the edible oils industry. The established track record of operations and experience of the management has helped the group to develop healthy relationships with its customers and suppliers. Acuite believes that the group will continue to benefit from the promoters' established presence in the industry and its improving business risk profile over the medium term.

• Efficient working capital operations

Operations of the group are working capital efficient marked by gross current assets (GCA) of 61 days in FY2019 (Provisional) as compared to 56 days in FY2018. This is on account of debtors' collection period of 20 days in FY2019 (Provisional) as against 14 days in FY2018 and inventory holding period of 31 days in FY2019 (Provisional) as against 43 days in FY2018. However, the average working capital utilization for past six months ended August 2019 stood at ~96 per cent.

Acuite believes that the working capital operations of the group will continue to remain efficient over the medium term on account of efficient debtors' collection period.

Weaknesses

• Moderate financial risk profile

The group has moderate financial risk profile marked by high gearing and modest debt protection metrics. The net worth stood at Rs. 21.82 crore as on 31 March, 2019 (Provisional) as against Rs.19.80 crore on 31

March, 2018 due to steady accretion to reserves. The gearing (debt-to-equity) stood at 2.64 times as on 31 March, 2019 (Provisional) as against 2.78 times as on 31 March, 2018. The total debt of Rs. 57.58 crore as on 31 March, 2019 (Provisional) consist of unsecured loans of Rs. 7.44 crore and working capital requirement of Rs. 50.13 crore. The interest coverage ratio stood at 1.60 times for FY2019 (Provisional) as compared to 1.58 times for FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood at 3.14 times as on 31 March, 2019 (Provisional) as against 3.88 times as on 31 March, 2018.

Acuite believes that the financial risk profile of the group is likely to remain moderate over the medium term, on account of adequate net worth and modest debt protection metrics.

• **Competitive and fragmented industry**

The group operates in a highly competitive and fragmented industry characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the group.

Rating Sensitivities:

- Substantial improvement in EBITDA margins to 2-2.5 per cent.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

Not Applicable

Liquidity position: Adequate

The group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 3.05 crore for FY2019 (Provisional), with no major debt repayment obligations for the same period. The cash accruals of the group are estimated to remain in the range of around Rs. 3.18 crore to Rs. 4.32 crore during 2020-22 against no significant debt repayment obligations. The group's working capital operations are efficient, marked by GCA of 56 days for FY2019 (Provisional). The group maintains cash and bank balances of Rs. 0.07 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.19 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook on account of experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	468.07	456.68	477.11
EBITDA	Rs. Cr.	8.17	8.82	7.26
PAT	Rs. Cr.	2.00	1.83	1.52
EBITDA Margin	(%)	1.75	1.93	1.52
PAT Margin	(%)	0.43	0.40	0.32
ROCE	(%)	10.10	9.59	8.68
Total Debt/Tangible Net Worth	Times	2.64	2.78	3.85
PBDIT/Interest	Times	1.60	1.58	1.64
Total Debt/PBDIT	Times	6.49	6.20	9.52
Gross Current Assets (Days)	Days	56	61	59

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	48.00	ACUITE BB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)

*100% interchangeability between fund based and non-fund based limits.

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About Acuité Ratings & Research:

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