Press Release

Shriram Seeds Private Limited

January 16, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.5.30 crore
Long Term Rating	ACUITE B+/ Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE B+' (read as ACUITE B plus)** on the Rs.5.30 crore bank facilities of SHRIRAM SEEDS PRIVATE LIMITED (SSPL). The outlook is **'Stable'.**

Incorporated in the year 2011, SSPL is a Sriganganagar (Rajasthan) - based company. The company is promoted by Mr. Lalit Goyal and Mr. Rajeev Anjani Goyal. The company is engaged in providing high quality seeds of different types, hybrids of Kharif and Rabi crops which are developed under affordable cost by the technical know-how staffs. The product line of the company consists of mustard seeds, wheat, barley, moong, to name a few. The company has been recognized as R&D unit by Directorate of Industrial and Scientific Research, Ministry of Science and Technology, Government of India, New Delhi.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SSPL is promoted by Mr. Lalit Goyal and Mr. Rajeev Anjani Goyal. The promoters of the company have been engaged in the agro industry for around two decades through a partnership firm namely Shriram Seeds. The experience of the promoters has helped in establishing healthy relationships with its customers and suppliers. The company caters to customers like Arora Traders, Jai Kishan Beej Bhandar, Sanjay Sales Corporation among others with no major concentration in its revenue profile. The revenue of the company stands at Rs.16.63 crore in FY2019 as against Rs.12.81 crore in FY2018.

Weaknesses

- **Moderate scale of operations**

The company has a presence of more than three decades in the industry. Despite its presence in the industry for over three decades, the operations of the company have remained moderate marked by operating income of Rs.16.63 crore in FY2019 as compared to Rs.12.81 crore in FY2018. The company has generated a revenue of Rs.17.26 crore till December 31, 2019. The company's ability to scale up the operations will remain a key monitor able.

- **Working capital intensive nature of operations**

  SSPL operations are working capital intensive in nature marked by Gross Current Asset Days (GCA) of 160 days in FY2019 which has improved from 233 days as on FY2018. This is on account of decrease in the inventory holding period of 88 days in FY2019 as against 145 days in FY2018. Further, it allows a credit period of 24 days to its customers. SSPL's working capital limits over the last twelve months period was utilized at an average of ~75 percent, while the peak utilization was high at around ~97.55 percent during the same period.

  Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company to cater the spot orders.

- **Weak financial risk profile**

  SSPL's financial risk profile is weak, marked by low net worth, high gearing and average debt protection metrics. SSPL's net worth has remained low at around Rs.1.09 crore as on March 31, 2019 as against of Rs.1.01 crore in FY2018. The net worth levels have remained low due to modest scale of operations, which has resulted in limited accretion to reserves over the last three years through FY2019. Though the revenue of the company is expected to remain in the range of Rs.18.04 crore to Rs.22.63 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Acuité expects the net worth to remain modest in the range of Rs.1.29 crore to Rs.2.01 crore over the medium term, in the absence of any equity infusion by the promoters.

  The company has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels and total outside liabilities to tangible net worth (TOL/TNW) levels of 7.11 and 9.04 times as on March 31, 2017. The company incurred capex of Rs.0.09 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in the scale of operation has been around Rs. (0.01) crore .The Company on the other hand generated cash accruals in the range of Rs.0.25 crore to Rs.0.18 crore over the same period. Lower accruals and accretion to reserves led to higher debt levels as on March 31, 2019.

  The revenues of the company increased by around 29.77 percent to Rs.16.63 crore during 2018-2019, while it's operating margins remained low in the range of 4.00-4.20 percent. The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were modest 0.03 times and 1.29 times respectively.

Rating sensitivity factor

- Improvement in operating income and profitability thereby improving the overall financial risk profile.
- Increase in GCA days.

Material Covenants

None

Liquidity position: Stretched

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.18 crore in FY2019 as against maturing debt obligations of around Rs.0.01 crore during the same period. The cash accruals of the company is estimated to remain around Rs.0.30 crore to Rs.0.51 crore during 2020-22 against repayment obligations of around Rs.0.10 crore during the same period. The company's working capital operations are intense marked by the gross current asset (GCA) days of 160 days for FY2019 as against 233 days in FY2018. The average bank limit utilization stood at 75 per cent for last twelve months ended December, 2019. The company maintains unencumbered cash and bank balances of Rs.0.60 crore as on 31 March 2019. The current ratio stands at 1.30 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of low net cash accruals to debt repayments over the medium term.

Outlook: Stable

Acuité believes that SSPL will continue to benefit over the medium term due to its long track record of operations and experienced management. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	16.63	12.81
PAT	Rs. Cr.	0.08	0.10
PAT Margin	(%)	0.46	0.75
Total Debt/Tangible Net Worth	Times	5.55	6.70
PBDIT/Interest	Times	1.29	1.35

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-17.htm
- Entities in Manufacturing Sector - https://www.acuite.in/view-rating-criteria-59.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

*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	5.30	ACUITE B+/ Stable (Assigned)

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About Acuité Ratings & Research:
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