

Press Release

Sai Smaran Foods Private Limited

September 27, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.65.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.64.75 crore bank facilities of Sai Smaran Foods Pvt. Ltd. (SSFPL) and has assigned a short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.0.25 crore bank facilities of SSFPL. The outlook is '**Stable**'.

The rating actions continue to derive comfort from established track record of operations of over 2 decades along with experienced management and moderate financial risk profile. However, revenue pressure along with thin operating margin and susceptibility to fluctuations in agro-based raw material price constrain the ratings. In FY21 (Provisional), SSFPL's operating income declined by 15.50per cent to Rs.426.17 crore and its EBITDA margin stood at 2.94per cent, though improved marginally from 2.71per cent in FY20. The revenue decline was due to Covid-19-led disruptions. However, increase in net profit led by lower interest cost supported the overall financial risk profile marked by improved gearing position and debt protection metrics. While debt to equity ratio of the company stood at 0.54 times as on March 31, 2021 (Provisional) compared to 1.25 times as on March 31, 2020, interest coverage ratio increased to 6.31 times in FY21 (Provisional) from 2.59 times a year back.

About the Company

SSFPL, incorporated in 1993 is a Nanded (Maharashtra) based company. The operations commenced in 1995. It is promoted by Mr. Naresh Goenka. It is primarily engaged in manufacturing of refined soya oil and soya de-oiled cakes (DOC). It is also engaged in trading of food grains. It has an installed capacity of 90,000 metric tonnes per annum (MTPA) of soya seed extraction, 15,000 MTA of extruded soya seed, 18,000 MTPA of soya refined oil and 73,000 MTPA of de-oiled cake extraction. It has recently installed extruded oil meal plant of 12,000 MTPA which is primarily used to produce export quality of oil meal.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of SSFPL to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of promoters in the industry, established track record of operations and presence in the industry**

SSFPL was incorporated in 1993 and has been in operations since 1995. The company is promoted by Mr. Naresh Goenka, who takes care of the day to day operations. Mr. Goenka is supported by his son and daughter in law, who are also directors in the company. The promoter has over two decades of experience in the industry. The company has a long track record of operations and established presence in the industry. SSFPL, under the leadership of its promoter has maintained long-standing relations with some its customers/suppliers.

Acuité believes that SSFPL will continue to benefit from extensive experience of its management, established track record of operations and presence in the industry.

SSFPL, however, has been facing revenue pressure since past more than one year. In FY21 (Provisional), the company's operating income declined by 15.50per cent to Rs.426.17 crore. In

FY22, so far, also the revenue continued to decline due to unavailability of raw material. Though lower interest expenses supported over 27per cent growth in profit after tax in FY21, the company's ability to achieve pre-Covid level revenue would be a key monitorable going ahead.

- **Moderate financial risk profile**

SSFPL has a moderate financial risk profile marked by modest net worth, improving gearing position and moderate debt protection metrics. The company's net worth, as on March 31, 2021 (Provisional) stood at Rs.48.53 crore compared to Rs.41.34 crore as on March 31, 2020.

Debt to equity ratio of the company improved to 0.54 times as on March 31, 2021 (Provisional) from 1.25 times as on March 31, 2020. This was led by lower debt level, besides improvement in net worth. SSFPL's total debt as on March 31, 2021 (Provisional) stood at Rs.26.25 crore, entirely comprising short-term debt. Going ahead, debt to equity ratio of the company is estimated to deteriorate from FY21 level over a medium term, though would remain below unity. Total outside liabilities to tangible net worth (TOL/TNW), as on March 31, 2021 (Provisional) stood at 0.75 times.

Interest coverage ratio of the company improved to 6.31times in FY21 (Provisional) from 2.59times a year back. Going ahead, interest coverage ratio is expected to decline from FY21 level and would remain at a comfortable level of 3-5 times during FY22 to FY24.

Weaknesses

- **Thin operating margins and net margins**

The edible oil market is characterized by thin margin amid low value additive nature and intense competition. Margins, in this line of business are range-bound between 2.5-3.0 percent. SSFPL's, operating margins stood low at 2.94 percent in FY2021 (Provisional), though has improved marginally from 2.71per cent in FY20. Net margins stood at 1.69per cent in FY2021 (Provisional).

- **Susceptibility to fluctuations in agro-based raw material price**

Operations are exposed to the inherent risks associated with the agriculture-based commodity business, such as availability of raw materials, fluctuations in prices, and changes in government regulations. The group is engaged in the extracting and refining of edible oil. The prices of crude edible oil are volatile in nature hence the profitability is highly susceptible to the ability of the company to pass on the same to its customers. Further, the demand-supply of soya bean oil and de-oiled cake (DOC) is affected by change in regulations in exporting and importing countries.

Rating Sensitivities

- Delay in revenue recovery
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Liquidity Position – Adequate

SSFPL has adequate liquidity position marked by moderate but improving current ratio, which stood at 1.77 times as on March 31, 2021 (Provisional) compared to 1.36 times a year back. Further, the company's cash accruals for FY21 (Provisional) stood at Rs.8.40 crore against no debt repayment obligations. SSFPL has moderately intensifying working capital nature of operations marked by GCA days of 49 to 59 for the last two years ending March 31, 2021 (Provisional). Average bank limit utilization, during the 6 months through August 2021 stood at ~84per cent.

Acuité believes SSFPL's liquidity profile to remain adequate over the medium term on account of its adequate cash accruals against no debt repayment obligations.

Outlook: Stable

Acuité believes that SSFPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience, established track record of operations and position in the industry and moderate financial risk profile. The outlook may be revised to 'Positive' if the company registers higher than expected revenue growth while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of slower than expected revenue recovery, resulting in lower than expected revenue growth, further decline in profitability or deterioration of financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)*	FY20 (Actual)
Operating Income	Rs. Cr.	426.17	504.34
PAT	Rs. Cr.	7.20	5.66
PAT Margin	(%)	1.69	1.12
Total Debt/Tangible Net Worth	Times	0.54	1.25
PBDIT/Interest	Times	6.31	2.59

*Acuite has assumed income tax provision of Rs.2.40 crore

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

- CRISIL vide press release dated August 27, 2021 has mentioned SSFPL's rating as 'B+/Stable Issuer Not Cooperating' as on August 27, 2021.
- CARE vide press release dated May 21, 2021 has mentioned SSFPL's rating as 'BB/Stable Issuer Not Cooperating' as on May 21, 2021.
- India Ratings & Research vide press release dated January 28, 2020 has mentioned SSFPL's (erstwhile Sai Smaran Foods Ltd.) rating as 'BB+ Issuer Not Cooperating' /'A4+ Issuer Not Cooperating' as on January 28, 2020.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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-Jun-2020	Cash Credit	Long-term	55.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long-term	10.00	ACUITE BBB-/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00 (Enhanced from Rs.55 Cr.)	ACUITE BBB-/Stable (Reaffirmed)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3 (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.75 (Reduced from Rs.10 Cr.)	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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