

Press Release

SFS Global Limited

July 16, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 23.00 Cr
Long Term Rating	ACUITE BBB-/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 23.00 Cr bank facilities of SFS Global Limited (SGL). The outlook is '**Stable**'.

Rationale for rating assigned

The ratings assigned reflect extensive experience of promoters, established relationship with Tata Consumer Products Limited (TCPL), increased sales volume leading to better growth in revenue & profitability and moderate debt-coverage indicators with Interest Coverage Ratio (ICR) of 3.34 times and Debt-Service-Coverage-Ratio (DSCR) of 2.25 times for FY2021(Prov.). SGL also has moderate leverage levels marked by gearing of 1.39 times as on 31st March 2021(Prov.) and total outside liabilities to total net worth (TOL/TNW) of 1.86 times as on 31st March 2021(Prov.). On the contrary, ratings are constrained on account of customer concentration risk and exposure to agro climatic risk.

About the company

Delhi-based, SGL was incorporated in the year 1995 by Mr. J. K. Saboo & Mr. Ram Prakash Saboo. SGL is engaged in blending and packaging of Tea and entered into a long-term contract of 10 years with TATA Consumer Products Ltd (TCPL) in 2012 to provide its warehouse facility on lease. Also, SGL provides various auxiliary services like receiving the raw material at its warehouse, blending of various varieties of tea along with packaging, storing, management and releasing the same on demand by TCPL.

Analytical Approach

For arriving at the rating, Acuité has taken the standalone view on the business and financial risk profile of SGL.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

SGL was incorporated in 1995 by Mr. J.K. Saboo and Mr. Ram Prakash Saboo who are engaged in varied line of businesses with more than four decades of experience. The day to day operations are managed by Mr. Ratik Saboo who is ably assisted by an experienced second line of management. The company has developed healthy relations with TCPL over the years which has helped them to get repeated orders. Acuité believes that the company will be benefitted over the medium term on the back of experience of promoters and healthy relationship with the counterparty.

- Strong Relationship with Tata Consumer Products Limited**

SGL has entered into long term contract with TCPL in 2012 under which the company has agreed to provide its facility located in Haryana on lease. Also, the company would be providing before-mentioned auxiliary services. The tenure of the agreement is of period of 10 years starting from April 2012 which is renewable for another two terms of 10 years. As per terms of agreement, TCPL provides for all the fixed expenses and variable expenses such as lease rent, storage rent, manpower expenses,

insurance premium and packaging expenses, to name a few and reimburses it on monthly basis. This enables the company to focus on timely delivery, quality control, cost control and process improvements leading to betterment of profitability.

- **Increased volumes leading to better growth in revenue and profitability**

The company has reported operating income of Rs. 24.89 Cr in FY2021 (Prov.) as against Rs. 19.49 Cr in FY2020. There has been an increasing trend in EBITDA margin from 24.90% in FY19 to 28.17% in FY20 to 33.06% in FY21 (Prov.). Further, Net Profit margin has increased from 6.35% in FY2019 to 8.25% in FY2020 to 18.11 in FY21 (Prov.). This shows the ability of company to handle volume increase from TCPL with improved profitability margins. The company has successfully been able to scale up their operations at a 2-year CAGR of 24.96%.

Weaknesses

- **Customer concentration risk**

The company's 100% of the revenue has been contributed by TCPL. Any deviation in terms of the contract with TCPL upon renewal may unfavorably impact the business operations, exposing the company to risk of concentration in the customer portfolio. However, to mitigate the risk, the company has been planning to add a few more reputed brands to its portfolio.

- **Exposure to agro-climatic risk**

Raw Tea is the main raw material for the company, production of which mainly depends on agro climatic conditions. In case of poor weather conditions, there is a risk of deterioration in production as well as the quality of tea. The crop is also exposed to pest attack issues, inherent to any agricultural produce. The company also faces competition from various brands of the other big players in the market like Hindustan Unilever, Wagh Bakri, Dabur etc.

Rating Sensitivity

- Diversification in customers' portfolio
- Substantial deterioration in profitability margins
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 5.27 crore for FY2021 (Prov.) as against Rs. 1.61 crore of repayment obligations for the same period. The company has unencumbered cash and bank balances of Rs. 0.21 crore as on 31st March 2021 (Prov.).

Therefore, there are enough net cash accruals to utilize more funds if required to support incremental requirements.

Outlook: Stable

Acuité believes the outlook of SGL's rated facilities will remain 'Stable' on account of the company's strong relationship with TCPL. The outlook may be revised to 'Positive' if the company achieves a sustained growth in revenues, profit margins with diversifying its customer portfolio. The outlook may be revised to 'Negative' in case the company registers significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	24.89	19.49
PAT	Rs. Cr.	4.51	1.61

PAT Margin	(%)	18.11	8.25
Total Debt/Tangible Net Worth	Times	1.39	1.95
PBDIT/Interest	Times	3.34	2.01

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-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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 (Up to 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. Crore)	Ratings/Outlook
Term Loan- I	31/03/2021	7.90%	31/03/2031	19.20	ACUITE BBB-/Stable (Assigned)
Term Loan- II	31/03/2021	7.50%	30/11/2026	3.09	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Available	Not Available	Not Available	0.71	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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