Press Release
SFS Global Limited
September 08, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.00	ACUITE BB- | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	23.00	-	-

Rating Rationale

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

Rationale for rating upgrade

The rating upgrade of SGL takes into account stable operating performance of the company marked by an increase in its operating income and profitability margins. It also draws comfort from company's experienced management with an established track record of operations, long standing relationship with Tata Consumer Products Limited (TCPL) and moderate financial risk profile. The rating is however constrained by the company's working capital intensive operations, customer concentration risk and exposure to agro-climatic risk. Going forward, ability of the company to maintain its scale of operations and profitability margins along with improving its working capital cycle will remain a key rating sensitivity factor.

About the Company

SGL incorporated in the year 1995 by Mr. J. K. Saboo & Mr. Ram Prakash Saboo, is a Delhi based company engaged in blending and packaging of tea. In 2012, the company entered into a long-term contract of 10 years (renewable for another two terms of 10 years or part at the option of lessor/lessee) with TATA Consumer Products Ltd (TCPL) to provide its facility on lease. As per the contract, SGL would also provide various auxiliary services like receiving the raw material (Raw Tea) at its warehouse, blending of various varieties of tea, packaging, storing, management and releasing the same as when demanded by TCPL.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

SGL is promoted 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 of SGL are currently managed by Mr. Ratik Saboo who is ably assisted by an experienced second line of management. Over the years, company has developed healthy relations with TCPL which has helped them to get repeated orders.

Acuité believes that SGL will continue to benefit on the back of its experienced promoters and healthy relationship with the counterparty.

Long standing relationship with Tata Consumer Products Limited
SGL has entered into a long-term contract with Tata Consumer Products Limited (TCPL) since 2012 under which the company has agreed to provide its facility located in Haryana on lease for a period of 30 years. The tenure of the initial agreement executed by both the parties was for period of 10 years starting from April 2012 to March 2022, further which it is being renewed every year for a period of 11 months. 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.

Moderate financial risk profile
Financial risk profile of SGL is moderate marked by moderate networth, moderate gearing and average debt protection metrics. The tangible networth of the company stood improved at Rs.22 Cr as on 31 March, 2023 (Provisional) as against Rs.18 Cr as on 31 March, 2022 due to accretion to reserves. Despite of improvement in the company's networth, the gearing (debt-equity) however stood increased at 1.63 times as on 31 March, 2023 (Provisional) as against 1.56 times as on 31 March, 2022 due to an increase in the overall debt profile during the year. The increase in the company's debt profile is on account of increase in the long-term bank borrowings and unsecured loans from directors availed for the purpose of undertaking the construction of a housing project in Delhi. The gearing of the company is however expected to improve further and remain low over the medium term in the absence of any additional debt funded capex. The total debt of Rs.36 Cr as on 31 March, 2023 (Provisional) consists of long term bank borrowings of Rs.33 Cr, unsecured loans from directors of Rs.2 Cr and short term bank borrowings of Rs.1 Cr.

The interest coverage ratio stood improved at 3.62 times for FY2023 (Provisional) as against 2.83 times for FY2022, however the DSCR stood moderated at 1.52 times for FY2023 (Provisional) as against 1.83 times for FY2022. The Net Cash Accruals to Total debt stood at similar levels of 0.13 times for FY2023 (Provisional) and for FY2022. The Total outside liabilities to Tangible net worth stood at 1.98 times for FY2023 (Provisional) as against 2.00 times for FY2022. The Debt-EBITDA ratio stood high at 4.54 times for FY2023 (Provisional) as against 4.24 times for FY2022.

Acuité believes that the financial risk profile of SGL is expected to improve further and likely to remain moderate over the medium term.

Stable operating performance
The operating performance of SGL is stable marked by an increase in the company's operating income of Rs.28 Cr for FY2023 (Provisional) as against Rs.26 Cr for FY2022 due to an overall increase in the rental and commission income, packing charges and reimbursement of expenses received from TCPL, which further led to an increase in the company's operating and net profit margin of 28.38 percent and 14.13 percent in FY2023 as against 25.03 percent and 10.77 percent in FY2022.

Acuité believes that the ability of SGL to maintain its scale of operations and profitability margins over the medium term will remain a key rating sensitivity factor.

Weaknesses
Working capital intensive operations
The working capital operations of SGL are highly intensive marked by its Gross Current Assets (GCA) of 309 days for FY2023 (Provisional) which however stood improved as against 331 days for FY2022. The company's receivables cycle stood at 41 days for FY2023 (Provisional) as against 39 days for FY2022. The average bank limit utilization for 6 months' period ended April 2023 however stood lower at ~29 percent.

Acuité believes that the ability of SGL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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 unfavourably impact the business operations, exposing the company to risk of concentration in the customer 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 Sensitivities

- Ability to maintain scale of operations and profitability margins
- Ability to improve and maintain an efficient working capital cycle

All Covenants

Not applicable

Liquidity Position - Adequate

SGL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.4 Cr to Rs.5 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation in the range of Rs.1 Cr to Rs.4 Cr during the same period. Going forward, the NCA are expected of ~Rs.9 Cr for the period FY2024-FY2025 against its debt repayment obligation of ~Rs.4 Cr during the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 309 days for FY2023 (Provisional). Current ratio stands at 2.47 times as on 31 March 2023 (Provisional). The company has maintained cash & bank balance of Rs.0.29 Cr in FY2023 (Provisional).

Outlook: Stable

Acuité believes that SGL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and its strong relationship with Tata Consumer Products Limited (TCPL). The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	27.56	25.85
PAT	Rs. Cr.	3.89	2.78
PAT Margin	(%)	14.13	10.77
Total Debt/Tangible Net Worth	Times	1.63	1.56
PBDIT/Interest	Times	3.62	2.83

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

Not applicable

Any other information

None

Applicable Criteria

• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Sep 2022	Term Loan	Long Term	19.20	ACUITE B- (Issuer not co-operating*)
	Term Loan	Long Term	3.09	ACUITE B- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	0.71	ACUITE B- (Issuer not co-operating*)
16 Jul 2021	Proposed Term Loan	Long Term	0.71	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	19.20	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	3.09	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	23.00	ACUITE BB- | Stable | Upgraded (from ACUITE B-)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.