

Press Release
Shreegluco Biotech Private Limited

April 04, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	160.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	160.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.160.00 Cr bank facilities of ShreeGluko Biotech Private Limited (SGBPL). The outlook is '**Stable**'.

Rationale for rating assigned:

The rating assigned reflects the improvement in the revenues & operating margins in FY2021 and the expected improvement in the revenues & margins going forward, moderate working capital operations and reputed promoters with experience in procurement in raw materials. The rating, however, remains constrained on account of moderate financial risk profile and stretched liquidity position marked by low net cash accruals against high repayment obligations.

About the Company

Bangalore-based, ShreeGluko Biotech Pvt Ltd (SGBPL) is promoted by Mr. Srinath Bysani who has a rich experience in trading of corn since 1986. The promoter was involved in the business of procuring corn from farmers and supplying to poultry, cattle and starch industries. In 2012, the company was incorporated with the intent of forward integration in the business and set up a starch & derivatives plant wherein raw material is primarily being corn. In June 2015, the company started construction and was able to setup a plant with a capacity of 600 tons/day capacity grinding and started commercial production in January 2018. The other promoters of the company are Mrs. B.S. Mamatha and Mr. B.S. Adinarayanaguptha. SGBPL's product portfolio include starch, germ, gluten, fiber and enrich fiber, liquid glucose, high maltose syrup and maltodextrin.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SGBPL to arrive at the rating.

Key Rating Drivers

Strengths

>Reputed promoters with experience in procurement in raw materials

SGBPL is promoted by Srinath Bysani who has a rich experience in trading of corn since 1986. The promoter was involved in the business of procuring corn from farmers and supplying to poultry, cattle and starch industries. Company was incorporated in 2012 and has done the forward integration by setting up a starch & derivatives plant where in primary raw material being corn. Other promoters of the company are Mr. B.S. Adinarayanaguptha and Mrs. B.S. Mamatha. The company setup a plant with a capacity to grind 600 tons/day of corn for deriving products like starch, germ, gluten, fiber and enrich fiber, liquid glucose, high maltose syrup and maltodextrin. Further to this, the company has been associated with reputed companies like Cargill Inc.

Acuité believes that the experience of the management in the industry is likely to favorably impact the business risk profile of the company over the near to medium term.

>Marketing arrangement with Cargill India Private Limited

The company entered into a marketing agreement with Cargill India private limited (CIPL) wherein SGBPL undertakes jobwork and manufactures an agreed quantity of maize starch powder and other products for CIPL under a profit sharing arrangement. Under the arrangement the company procures raw material from CIPL and manufactures the products which are the marketed by CIPL. SGBPL charges tolling/grinding charges to CIPL and profits would be shared among SGBPL and CIPL in the ratio of 53:47. The tolling agreement has expired in February, 2022. But, Cargill has requested for 4 months extension of the agreement. So, this agreement will now expire in June, 2022.

>Improving operating income and operating margins

The turnover of SGBPL stood at Rs.126.26 crore in FY2021 against 109.95 crore in FY2020. The turnover improved in FY2021 majorly due to high demand for the products. The operating margin of the company stood at 21.73 percent in FY2021 as against 3.88 percent in FY2020. The plant started operations in FY2018 and over the past 3 years ended FY2021, the plant efficiency has improved from 54 percent to 82 percent over the same period. Further to this the plant efficiency has improved to almost full in first quarter of FY22. The company expects, the financial position to stabilize going forward. Also, the company was able to pass on the increase in the raw material cost to their customers due to which the operating margins improved significantly. The Company has already achieved turnover of Rs.180.06 crore for 11MFY2022 and is expecting to achieve around Rs.190 crore in FY2022.

Acuité believes that the operating performance of the company will improve with full utilization of the plants. The improvement in operational efficiency will result in profits in future.

Weaknesses

>Moderate working capital operations

SGBPL's working capital operations are moderate marked by Gross Current Asset days (GCA) of 59 days in FY2021 against 49 days in FY2020. The inventory days stood at 4 days in FY2021 against 1 day in FY2020. The company maintains an inventory holding policy of 1 month for raw materials and 10-15 days for finished goods. The debtors' days stood at 96 days in FY2021 against 68 days in FY2020. The credit period given to customers is around 7-30 days. The debtors' days increased in FY2021 since there was delay in receiving the payment from some of the customers. The creditors' days stood at 71 days in FY2021 against 72 days in FY2020. The company enjoys a credit period of 1-2 months. The Cash Credit and the Overdraft facility is yet to be disbursed, so it is not utilized.

Acuité believes that SGBPL's working capital operations are expected to remain moderate over the medium term.

>Moderate financial risk profile

The financial risk profile of the company is modest as observed from moderate net worth, moderate gearing and weak debt protection metrics. The net worth was modest at Rs.58.93 crore as on March 31, 2021 against Rs.0.04 crore as on March 31, 2020. The increase in equity was primarily as a result of conversion of unsecured debt to equity. Of the total debt of Rs.146.36 crore in FY2021, long-term debt stood at Rs.110.00 crore, short-term debt stood at Rs.14.36 crore, unsecured loans stood at Rs.6.74 crore and CPLTD stood at Rs.15.26 crore. The gearing stood moderate at 2.48 times and TOL/TNW of 2.80 times as on as on March 31,

2021. The debt protection metrics of interest coverage ratio and net cash accruals to total debt stood weak at 1.22 times and 0.03 times in FY2021 while DSCR stood at 0.93 times in FY2021. The deterioration in financial risk profile is primarily as a result of net losses reported by the company over the past three years.

Acuité believes that the financial risk profile is expected to improve over the medium term.

>Susceptibility of profitability towards volatility of raw material prices and continued net losses in the past:

The input raw material prices are volatile and depend on monsoons, sowing by farmers, support prices decided by governments etc. In FY20 the average price of maize increased from around Rs15,750 per MT to Rs 22,700 per MT on account of floods in Karnataka. But the company being in nascent stages of operations and other factors including competition, could not pass on the increase in raw material prices to its customers. The company reported net losses in past four years of operations ending FY21 resulting in erosion of net worth. The promoters had to foot in funds in form of unsecured loans in past and the same was converted to equity in FY21. The losses have narrowed in FY21.

Acuité believes the improvement in operational efficiency will result in profits in future.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material covenants

None

Liquidity: Stretched

SGBPL has stretched liquidity position as reflected by low cash accruals against high repayment obligations. Current position of cash accruals is at Rs.4.95 crore in FY2021 against high repayment obligations of Rs.15.26 crore, further, going forward in FY2022 to FY2024, the cash accruals are expected to be in the range of Rs.31.44 crore – Rs.68.51 crore against moderate repayment obligations in the range of Rs.7.36 crore – Rs.16.44 crore. Unencumbered cash and bank balances stood at Rs.0.03 crore as on March 31, 2021 with a current ratio of 0.45 times in the same period. Liquid investments stood at Rs.1.11 crore as on March 31, 2021. The Cash Credit and the Overdraft facility is yet to be disbursed, so it is not utilized.

Acuité believes that liquidity profile is expected to improve over the medium term.

Outlook: Stable

Acuité believes that SGBPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	126.26	109.95
PAT	Rs. Cr.	(3.34)	(22.50)
PAT Margin	(%)	(2.64)	(20.46)
Total Debt/Tangible Net Worth	Times	2.48	5326.50
PBDIT/Interest	Times	1.22	0.28

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

CARE, vide its press release dated March 30, 2021 had denoted the rating of SHREEGLUCO BIOTECH PRIVATE LIMITED as 'CARE B+/ Stable; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB Stable Assigned
HDFC Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	0.33	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.41	ACUITE BB Stable Assigned
Canara Bank	Not Applicable	Term Loan	30-09-2016	17.00	31-05-2028	40.48	ACUITE BB Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	31-01-2022	Not available	30-06-2022	47.25	ACUITE BB Stable Assigned
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	30-06-2020	8.35	30-06-2022	0.28	ACUITE BB Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	31-01-2022	7.50	31-01-2027	13.43	ACUITE BB Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	31-03-2021	7.95	30-04-2026	13.36	ACUITE BB Stable Assigned

Canara Bank	Not Applicable	Working Capital Term Loan	31-01-2022	7.85	31-01-2027	6.75	ACUITE BB Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	31-01-2022	7.50	31-01-2027	6.71	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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