

## Press Release

Sael Agri Commodities Limited

April 28, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	871.50	ACUITE A-   Stable   Assigned	-
Bank Loan Ratings	328.50	-	ACUITE A2+   Assigned
Total Outstanding Quantum (Rs. Cr)	1200.00	-	-

## Rating Rationale

Acuite has assigned its long term rating of **"ACUITE A-"**(read as **ACUITE A minus**) and short term rating of **"ACUITE A2+"**(read as **ACUITE A two plus**) on the Rs.1200 Cr bank facilities of SAEL Agri Commodities Limited (SACL). The outlook is **'Stable'**.

### Rationale for Rating

The rating assigned factors in the extensive experience of the promoters in the agro business along with long track record of operations. The agro based business which was earlier in the SAEL Ltd (Associate concern) was transferred through slump sale in SACL in FY 2022. Further, the rating factors in the healthy scale of operations of the rice unit over the years. SACL has recorded revenues in the range of Rs. 2900 – 3200 crore and EBIDTA margins in the range of 7-8% over the last three years through FY 2023 (Prov). The rating also factors in the healthy financial risk profile of the company with healthy net worth, low gearing and comfortable debt protection metrics. However, the above-mentioned strengths are partly offset by working capital intensive nature of operations majorly due to higher inventory days, which is a general standard in this industry, volatility in prices on account of seasonality of the crop. While the reliance on bank borrowings is on higher side currently with an average utilization of 95% for 13 months ended March 2023. Acuite expects that utilization levels are expected to truncate from the current levels due to return of advances extended to group entity (created on account of demerger of business).

### About the Company

SAEL Agri Commodities was incorporated in 2021 in Firozpur, Punjab. It is an agro based industry having manufacturing facilities of integrated rice shelling units, solvent extraction plant and power generation, biomass & solar. The company deals in various varieties of Basmati & Non-Basmati Rice under the brand names of Ekam, Adina, Nyce, Sukhbir through their State of Art manufacturing facilities located at Powayan, district Shahjahanpur; Ghazipur district Fatehullapur and Guruharsahai, district Firozpur, Punjab. The byproducts namely Rice Bran is directly used in Solvent Extraction Plant for production of Rice Bran Oil & Husk is used as fuel in Biomass Power Plant for generation of electricity, which is sold to UPPCL. Solar Power Generated is used in Capitative Consumption. The directors are Mr. Jasbir Singh, Mr. Sukhbir Singh and Mr. Laxit Awla.

## About the Group

**SAEL Ltd (erstwhile Sukhbir Agro Energy Ltd)** was incorporated as a private limited company under the name of Sukhbir Agros Private Limited on December 21, 1999, in Punjab. The company was subsequently converted into a public company and its name was changed to Sukhbir Agro Energy Limited on June 30, 2006. SAEL is primarily engaged in the milling of rice (both basmati and non-basmati varieties), manufacturing of crude rice bran oil, biomass-based power generation (15 MW in Haryana and 46 MW in Punjab), Solar Power generation (152 MW in Uttar Pradesh, 20MW in Maharashtra) and warehousing. The company has three manufacturing units located at Ferozepur (Punjab), Ghazipur and Shahjahanpur (both in Uttar Pradesh). The company sells its rice under the brand name of 'Sukhbir', 'Adina', 'Mahavat', 'Ekam' and 'Nyce'. Under the warehousing business the company has set up godowns at 10 different locations in U.P. with aggregate capacity of 5.71 Lakh Metric Tons (MT) and leased to Food Corporation of India (FCI) through Uttar Pradesh State Warehousing Corporation (UPSWC) for storage of food grains. The directors are Mr. Jasbir Singh, Mr. Sukhbir Singh, Mr. Randeep Singh Grewal, Mr. Romesh Kumar Dhir, Mrs. Sanjeevan Bajaj and Mr. Madan Lal.

**SAEL Overseas Limited (erstwhile Sukhbir Overseas Limited)** was incorporated in July 2013 in Guruharsahai, Punjab and was expected to commence operation from October 2013. The Company is engaged in the business of procurement & export of rice. SOL is promoted by Mr. Sukhwinder Singh, Mr. Jasbir Singh Awla, Mr. Raminder Singh Awla, Mr. Karnail Singh who has experience in agro based industries, biomass-based power generation, rice milling, trading of food grains, infrastructure and real estate development business. The directors are Mr. Jasbir Singh, Mr. Sandeep Singh and Mr. Laxit Awla

## Analytical Approach

Acuité has considered the standalone business and financial risk profile of SAEL Agri Commodities Limited to arrive at this rating.

## Key Rating Drivers

### Strengths

#### **Separation of Power Business is likely to lead to increased operational efficiencies**

SAEL Limited transferred its rice units to SACL through slump sale as a result of which the power generation business and Rice milling business were separated on April 1, 2022. On account of this demerger, intercorporate deposits came into being to the tune of Rs.220 crore as the power business utilized the cash generated in the rice business towards the incremental working capital. Thus SACL is expected to receive around Rs.220 crore from SAEL Limited. SACL as on March 31, 2023 has received a sum of Rs.80 crore as return of advances from SAEL Limited. This has led to lower utilization levels in the month of March 31, 2023. Acuite believes that the limit utilization is not expected to increase beyond 90% going forward as the management plans to change its procurement pattern to keep lower amount of finished goods inventory. While the benefits of change of procurement pattern is yet to be established, Acuite believes that working capital limits currently remain adequate for sustenance of operations at around Rs.3000-3400 crore. The separation of rice business shall allow improved allocation of short term and long term resources.

#### **Experienced management and established track record of operations**

The company is promoted by Jasbir Singh, Mr. Sukhbir Singh and Mr. Laxit Awla. The management of the company has vast experience of more than two decades in agro based business. The agro based business was transferred through slump sale in FY 2022 to SACL. The rice milling units are strategically located at the state of Uttar Pradesh and Punjab, which are in top three rice-producing states in India. The capacity utilization for the rice plants across all the five units stood at 90% in FY 2023. Further, the experience of the management will help the company to maintain long-standing relationship with clientele. The scale of operations of the rice business has remained stable over a period of three years through FY 2023 (Prov). The top-line comprises the revenue from diversified segments from milling of rice, biomass based

power generation that is sold to UPPCL, solvent extraction and exports. However, majority of revenue is from rice milling. Further, the EBITDA margins of the company are range bound and are in between 7-8% for the last three years through FY 2023 (Prov.) in line with other industry players in similar business.

Acuite believes that company will continue to benefit from its experienced management, strategic location advantage and a longstanding relationship with reputed clientele.

### **Healthy financial Risk Profile**

The financial risk profile of the company is healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.1076.19 Crore in FY 2022, which is majorly, consists of the sale consideration of Rs 1037 Cr that arises out of slump sale. The total debt of the company stood at Rs.890 crore in FY 2022, which majorly constitutes of short term debt of Rs 858.76 Cr. The gearing (debt-equity) of the company is low and is below unity and stood at 0.83 times in FY 2022 and TOL/TNW of the company stood at 1.13 times in FY 2022. The coverage indicator remains comfortable with Debt-Service-Coverage-Ratio and Interest-Coverage-Ratio both stood at 2.51 times as on FY 2022.

However, the SACL has availed Corporate Term Loan of Rs 180 Cr for general corporate purpose in FY 2023 against the various collateral security of warehouses owned by SAEL Ltd. Hence, the rental income of warehouses will be act as source of payment to repay the term loan. Going forward, the leverage ratios are expected to remain low with accretion of profits to the reserve and no major capex plans except for the regular maintenance.

Acuite expects the leverage and coverage indicators to remain healthy in near to medium term on the back of surge in earnings improving the accruals of the company.

### **Weaknesses**

#### **Working capital intensive operations**

The operations of the company are working capital intensive in nature marked by high GCA days of 220 days as on March 31, 2022 and 226 days as on March 31, 2023 (Prov). The higher GCA day are majorly constituted of inventory days of 179 days as on March 31, 2022 and 178 days as on March 31, 2023 (Prov.). The higher inventory days are inherent in this industry as the procurement season for rice paddy is from Oct to Feb only resulting in high inventory days as on March end. The company has changed its strategy of inventory management and will maintain the inventory of raw materials on higher levels and finished goods inventory at lower levels. The debtor days however remains at 47 days as on March 31, 2022 as against 52 days in March 31, 2023.

The working capital intensive nature of industry is also reflected through higher reliance on short-term bank borrowings with an average bank limits utilization of more than 95% for 13 months ended March 2023. However, the short-term debt as a percentage of total current assets stood at 47% in FY 2022 representing the higher promoter contribution in managing working capital operations. Further, SACL is expected to receive around Rs.220 crore from SAEL Limited as an outcome of demerger of business which will also provide an additional liquidity. Hence, the limit utilization is not expected to increase beyond 90% going forward and currently remain adequate for sustenance of operations at around Rs.3000-3400 crore.

Acuite believes that working capital operation of the SACL may continue to remain intensive considering the nature of industry wherein maintaining a higher inventory is inherent requirement.

#### **Commodity price fluctuation**

Paddy, the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon season. Environmental factors, sound fertility of soil and seasonal monsoon control the output of the paddy cultivation affecting the demand supply dynamics of basmati/non-basmati rice year-on-year resulting in price flux. Furthermore, paddy price is largely dependent on several external factors like domestic demand outlook, international trade regulations and domestic productions. This exposes the company to the risk related with fluctuation in raw material price.

### **ESG Factors Relevant for Rating**

The production of rice is a significant segment of the food industry, and businesses must prioritise governance, social, and environmental concerns to maintain sustainable practices. The company has integrated biomass plant into rice manufacturing process. This approach will not only reduce the carbon foot-print of the company but also provides the renewable source of energy. The biomass plant can convert rice husks and other agriculture waste into energy, which can be used to power the manufacturing process. This reduces the reliance on fossil fuels and mitigates the impact of climate change. Moreover, the use of biomass creates the employment opportunities for local communities, contributing to social sustainability. The company must also ensure good governance by adhering to ethical business practices and complying with regulations. In conclusion, integrated biomass plant into rice manufacturing is a win-win solution for ESG factors, promoting sustainability, and responsible corporate behaviour.

### Rating Sensitivities

- Improvement in scale of operation and profitability margin
- Utilization of working capital limits.

### Material covenants

None.

### Liquidity Position

#### Strong

The liquidity position of the company remains strong with sufficient cash accruals to repay its maturing debt obligation. Further, the company is expected to generate a net cash accrual in the range of Rs 130-Rs 170 Cr against the maturing debt obligation of Rs 43 Cr in near to medium term. Further, the company will be having liquidity through receipt of warehouses rent of Rs 27 Cr from SAEL Ltd .

However, the working capital limits remains utilized at an average of 95% for 13 months ended March 2023. Nevertheless, the utilization came down to 77% in March 2023 as cash generated by rice business which were used earlier in power business is now a receivable from SAEL Ltd and Rs 80 Cr in respect to same has already been received.

Acuite believes that liquidity position may continue to remain strong in near to medium term with increase in scale leading to healthy cash accruals.

### Outlook: Stable

Acuite believes that company's business risk profile is expected remain 'Stable' on the back of extensive promoter's experience in the rice milling industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals while sustaining their liquidity position. Further, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, a decline in profitability margin or further elongation in the working capital cycle.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	3115.56	0.00
PAT	Rs. Cr.	110.29	0.00
PAT Margin	(%)	3.54	0.00
Total Debt/Tangible Net Worth	Times	0.83	0.00
PBDIT/Interest	Times	2.51	0.00

### 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 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**

In order to inform the investors about complexity of instruments, Acuite 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](http://www.acuite.in)

**Rating History:**

Not Applicable



## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	32.50	ACUITE A2+   Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2+   Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	177.00	ACUITE A-   Stable   Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE A-   Stable   Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE A2+   Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.50	ACUITE A2+   Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+   Assigned
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A2+   Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.50	ACUITE A2+   Assigned
Punjab National Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE A2+   Assigned
Indian Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	44.50	ACUITE A2+   Assigned
State Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE A2+   Assigned
Union Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	44.50	ACUITE A2+   Assigned
UCO Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A2+   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	22.64	ACUITE A-   Stable   Assigned

Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	183.86	ACUITE A-   Stable   Assigned
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	288.00	ACUITE A-   Stable   Assigned
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	90.00	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	18.00	ACUITE A-   Stable   Assigned

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### 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.

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