



Press Release
SUMANGAL MANUFACTURING AND TRADING
January 04, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.50	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.50	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE B+**' (read as **ACUITE B Plus**) on the Rs. 10.50 Cr. bank facilities of Sumangal Manufacturing and Trading (SMT). The outlook is '**Stable**'.

Rationale for the Rating

The rating assigned takes into consideration the moderate scale of operations, and its below average financial risk profile with declining net worth year on year due to capital withdrawal and high leverage ratios. Further, the working capital operations of the firm remain intensive with high GCA days of 332 days. The rating also factors in Sumangal's consumer concentration risk due to presence of a single clientele. However, the rating favourably factors in the established track record and experience of the partners.

About the Company

Based out of Nashik, Sumangal Manufacturing and Trading was incorporated in 2013. It is engaged in manufacturing of Poultry Feed, Mash Feed & Pallet Feed. The partners of the firm are Mr. Sanjay Prakash Hire and Mr. Mangal Sanjay Hire.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered standalone approach for Sumangal Manufacturing and Trading to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management with established track record of operations

Sumangal Manufacturing & Trading incorporated in 2013, is engaged in the production of poultry feed and mash feed in Nashik. The key partners have a decade of experience in the industry. The revenue of the firm stood at Rs.6.44 crore in FY2023 as against Rs.5.97 crore in FY2022. Further, SMT & Co. has recorded a revenue of Rs. 6.65 crore till October 2023 and is likely to record a healthy revenue growth in the near term. The firm also has long standing relationship with its single and reputed customer Venkateshwara Hatcheris (Venky's). Acuite believes that experience of the partners will continue to help the firm in near to medium term.

Weaknesses

Below average business risk Profile

The business risk profile of the firm stood below average with similar levels of topline for FY23 and FY22; with a moderate improvement in the profitability. The business operations are in the unorganised market of poultry feed / bird feed/ and other allied income. SMT clocked a revenue of Rs.6.44 crore for FY23 as against Rs.5.97 crore for FY22; and reported a net profit of Rs.0.56 crore for FY23 as well as FY22.

However, SMT has reported a YTD revenue of Rs.6.65 crore for the period of April 2023 – Oct 2023; with a profit of Rs.0.89 crore. The firm has sole clientele namely Venkateshwara Hatcheries aka Venky's which is a listed entity.

Below average financial risk profile

The financial risk profile of SMT remains below average, marked by declining net worth, high gearing and comfortable debt protection metrics. Net worth of the firm declined to Rs.1.42 crore as on March 31, 2023; vis a vis Rs.2.26 crore as on March 31, 2022, and as against Rs.6.15 Cr. as on March 31, 2021 due to withdrawal of capital. Further, in FY 2022 decline in net worth is majorly due to discontinuation of partnership of two partners and their capital has been transferred to USL amounting to approx. Rs 2.90 Cr. The Debt-equity (gearing) remained high at 11.25 times in FY23 Vis a Vis 2.19 times in FY22. Going forward, the gearing of the firm is likely to remain at the same levels due to thin profitability margins and risk of capital withdrawal by partners.

The total long term debt obligations amounted to Rs.15.97crore in FY2023; where majority proportion consists of USL from partners of Rs 9.66 Cr and term loan of Rs.6.32 crore for FY23; as against Rs.4.95 crore in FY22. The firm's debt protection metrics remained comfortable with Interest coverage ratio at 3.8 times for FY2023 as against 4.68 times in FY2022; and DSCR of the firm stood at 3.8 times in FY2023 as against 4.68 times for FY2022. The Net cash accruals to total debt (NCA/TD) stood low at 0.16 times in FY2023 as against 0.23 times in FY2022. TOL/TNW for SMT reported high at 12.13 as on March 31, 2023 as against 2.88 times as on March 31, 2022.

Acuite believes that financial risk profile of the firm may continue to remain below average considering the thin profitability margins and risk of capital withdrawal.

Intensive Working capital management

The working capital management of the firm is intensive marked by high Gross Current Assets (GCA) of 332 days on 31st March 2023 as compared to 241 days on 31st March 2022. The high level of GCA days is on account of high debtor levels during the same period. The debtor period stood at 248 days as on 31st March 2023; viz a viz 219 days on March 31, 2022. Creditor days stood high at 1274 days as on March 31, 2023 as against 373 days as on March 31, 2022. Acuite believes that the working capital operations of the firm may continue to remain at same level with high debtor levels over the medium term.

Susceptibility of revenue and profitability to bird diseases

Bird flu and other diseases are critical risks in the poultry business, which can affect the demand and supply of the products, which ultimately can cause a prolonged impact on prices and profitability.

Rating Sensitivities

- Customer Concentration risk where SMT has a single client
- Continuous withdrawal of capital by partners creating impact on firm's leverage
- Further deterioration in working capital cycle

Liquidity Position Adequate

SMT has adequate liquidity position marked by increasing net cash accruals of Rs.2.48 crore as against no debt obligations for FY2023. The cash accruals of the firm are estimated to increase in the near term; while maturing debt obligations are expected to rise marginally. Furthermore, the firm maintains cash and bank balances of Rs.0.02 crore as on March 31, 2023

and the current ratio also stood at 4.78 times as on March 31, 2023.

Outlook : Stable

Acuité believes that the firm will continue to maintain a 'Stable' outlook over near to medium term owing to its product offering and experienced management. The outlook may be revised to 'Positive' in case the firm achieves higher than expected growth in revenues and improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	6.44	5.97
PAT	Rs. Cr.	0.56	0.56
PAT Margin	(%)	8.76	9.33
Total Debt/Tangible Net Worth	Times	11.25	2.19
PBDIT/Interest	Times	3.80	4.68

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <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

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
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE B+ Stable Assigned
DNS Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.50	ACUITE B+ 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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