

Press Release

Santlal Industries Limited

January 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) on the Rs. 75.00 crore bank facilities of SANTLAL INDUSTRIES LIMITED. The outlook is '**Stable**'.

SIL, an Uttar Pradesh based company was incorporated in 1999 by Mr. Anil Agarwal and Mr. Sunil Agarwal. The company is engaged in processing, milling of basmati of various types, mainly, Pusa Basmati 1121. Currently, the company is directed by Mr. Anil Agarwal, Mr. Sunil Agarwal, Mr. Mohit Agarwal, Mr. Pranjal Agarwal, Ms. Ritu Mittal, Ms. Anju Agarwal, Ms. Neha Puri and Mr. Shishank Chauhan. The company has its manufacturing units at Mainpuri (Uttar Pradesh). The installed capacity stood at 96480 metric tonnes per annum for milling, processing and sorting. The company has installed two grain based power plants adding to total capacity of 4.5 MW in order to reduce the power cost. SIL has its own brands 'SL' and 'Mayur'.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

SIL was incorporated in 1999 by Mr. Anil Agarwal and Mr. Sunil Agarwal as Directors. The promoters of the company have more than two decades of experience in the rice industry. Their extensive experience coupled with long track record of operations has helped develop healthy relationships with its customers which are reflected by increasing operating revenue on a Y-O-Y basis. The operating income stood at Rs. 224.97 crore in FY2018 as compared to Rs. 181.99 crore in FY2017, thus registering revenue growth of ~23.62 per cent on Y-O-Y basis. Acuité believes that SIL will sustain its existing business profile on the back of established track record of operations and experienced management.

• Proximity to raw materials

SIL's manufacturing facility is located in Mainpuri (Uttar Pradesh), one of the major basmati rice producing regions in India. The proximity of the manufacturing facility to raw material source ensures steady supply of raw materials at competitive rates. Moreover, the company has two grain based captive power plant of 4.5 MW which has led to savings in power cost thereby improving the operating efficiency.

• Moderate financial risk profile

The financial risk profile of SIL is moderate marked by tangible net worth of Rs.43.76 crore as on March 31, 2018 which includes Rs.13.07 crore of unsecured loans from promoters. Acuité has treated the unsecured loans as quasi equity as this is subordinated to bank debt. The total debt of Rs.31.47 crore outstanding as on 31 March, 2018 comprises entirely of working capital borrowings from the bank. The gearing stood at 0.72 times as on 31 March, 2018 as against 2.34 times as on 31 March, 2017 due to reduction in the short term debt utilization as on March 31, 2018 Interest Coverage Ratio stood at 2.76 times in FY2018 as against 2.42 times in FY2017. DSCR stood at 2.75 times in FY2018 as against 2.31 times in FY2017. The NCA/TD ratio stood at 0.35 times in FY2018 as against 0.11 times in FY2017. Acuité believes that SIL will sustain its financial risk profile backed by healthy accruals over the near to

medium term in the absence of any major capex plan.

Weaknesses

• Susceptibility of profitability margins to volatility in raw material prices, regulatory risk and agro climatic risk

Paddy is the major raw material required and since rice is a seasonal crop and the production is highly dependent on monsoon season leading to the price fluctuations. The company is exposed to risk as paddy price is largely dependent on several external factors such as international and domestic demand and productions. Any adverse change in the global market will directly impact the debt protection indicators of SIL. The company derives around 95 percent of its revenue from exports to Iran, Iraq, Saudi Arabia, UAE and others. As a result the company's revenue profile is exposed to regulatory risk arising from changes in other countries' procurement policies. The price of paddy is driven by the market forces of supply and demand and the government policies of minimum support prices. Volatility in prices, thus, is an inherent risk for entities affecting the top-line as well as inventory management. Since paddy is an agro commodity, the company is exposed to agro climatic risks.

• Competitive and fragmented nature of rice milling business

SIL operates in a highly competitive and fragmented industry characterised by large number of unorganised as well as organised players thereby affecting the profitability margins of the company.

Outlook: Stable

Acuite believes that SIL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins and deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	224.97	181.99	145.10
EBITDA	Rs. Cr.	16.81	16.96	16.94
PAT	Rs. Cr.	6.71	4.57	(0.15)
EBITDA Margin	(%)	7.47	9.32	11.68
PAT Margin	(%)	2.98	2.51	(0.10)
ROCE	(%)	12.58	8.81	17.60
Total Debt/Tangible Net Worth	Times	0.72	2.34	3.82
PBDIT/Interest	Times	2.76	2.42	1.27
Total Debt/PBDIT	Times	1.83	4.96	7.03
Gross Current Assets (Days)	Days	95	196	304

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- / Stable

*Packing credit- sublimit of cash credit-Rs. 8.00 crore

#FOBP/FOUBP/FOBNLC/FOUBNLC- sublimit of cash credit-Rs. 8.00 crore

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About Acuité Ratings & Research:

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