

Press Release

Santlal Industries Limited

January 09, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) on Rs.75.00 crore bank facilities of Santlal Industries Limited (SIL). The outlook is **'Stable'**.

Uttar Pradesh-based SIL was incorporated in 1999 by Mr. Anil Agarwal and Mr. Sunil Agarwal. The company is engaged in the processing, milling of basmati of various types mainly Basmati Rice and generates majority of its revenues via exports to Middle Eastern countries like Iran, Iraq and Oman to name a few. The milling and processing units of the company are located in Mainpuri (U.P.) with the installed capacity of around 650 tons per day. Further, SIL has two grain based power plants with the installed capacity of 4.50 MW.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

SIL is promoted by Mr. Anil Agarwal, Mr. Sunil Agarwal, Mr. Pranjali Agarwal and Ms. Anju Agarwal who are experienced industry veterans with experience of over 2 decades each in the agro commodities business acquired via their association with company companies Santlal Commodities and Stocks Limited, Maharaja Agro Limited and Rudi Rollers Flour Mill Private Limited. The company has had an established track record of operations of over two decades. The experience of the promoters coupled with the established track record of operations has benefitted the company evident by the healthy scale of operations and steady revenue rise of the company.

Acuite believes that SIL will continue to benefit from its established presence in the aforementioned industry over the medium term.

- Healthy financial risk profile**

The company's financial risk profile is healthy, marked by a healthy net worth, low gearing and above average debt protection metrics. The net worth is healthy estimated at around Rs.45.14 crores as on March 31, 2019 as against Rs.30.68 crores in the previous financial year. The net worth levels have seen significant improvement over the last three years through FY 2019 on account of healthy accretion to reserves during the same period.

The leverage levels stood healthy at around 0.30 times as on March 31, 2019. The company's healthy cash accruals to the tune of about Rs.18.10 crores have supported in minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.30 times and Rs.13.49 crores as on March 31, 2019. The cash accrual over the next two years through 2021 are estimated to remain in the range of Rs.24.99-26.48 crores against no repayment obligations while supporting incremental working capital requirements. As a result, the gearing is expected to be moderate around 0.33 times as on March 31, 2021 on back of healthy accretion to reserves. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 1.34 times and 8.03 times, respectively.

Acuite expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves.

• Efficient working capital operations

SIL's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 77 days for FY2019 as against 95 days in the previous year. The decline in GCA days can be attributed lower inventory levels maintained in the business marked by the inventory holding period of around 62 days in FY2019 as against 83 days in FY2018. The debtor's collection period stood at 15 days as against 12 days in the previous year. Further, the creditor days stood at 40 days in FY2019. As a result, the reliance on working capital limits has reduced, leading to lower utilization of its bank lines at an average of 14.75 per cent over the last six months through November 2019. While the peak utilization is also moderate at around 40-45 per cent during the same period.

Weaknesses

• Agro climatic risk and inventory risk

Paddy, the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon the monsoon season. Thus, inadequate rainfall may affect the availability of paddy under adverse weather conditions. Conversely, overstocking leads to a significant quantity of paddy/rice in inventory and exposes the company to inventory price risk.

• Risk related to economic conditions of the export countries and foreign exchange

The company is engaged in the milling and processing of rice and is exporting the same to Iran, Iraq, Oman and Middle East. This exposes the company to the risks related to economic conditions of the exporting countries. Any slowdown in the economic conditions of these countries may adversely impact the orders inflow of the company. The profitability margins remain susceptible to fluctuations in foreign exchange rates.

Rating Sensitivity Factor

- Growth in revenue, while improvement in the profitability margins
- Elongation of working capital operations leading deterioration in financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Adequate

SIL has adequate liquidity marked by adequate net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.18.10 crore for FY2019, with nil debt repayment obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.24.99 crore to Rs.27.91 crore during FY2020-22. The company's working capital operations are efficient, marked by GCA of 77 days for FY2019. The company has low working capital utilization of around 14.75 percent for the period under study of six months ending on November, 2019. The company maintained cash and bank balances of Rs.0.20 crore as on 31 March, 2019. The current ratio stood healthy at 1.90 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

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 or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	301.50	224.97
Profit after tax (P.A.T.)	Rs. Cr.	14.45	6.71
PAT Margin	(%)	4.79	2.98
Total Debt/Tangible Net Worth	Times	0.01	0.72
PBDIT/Interest	Times	8.03	2.43

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Jan-2019	Cash Credit	Long Term	60.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB-/Stable (Assigned)

*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	30.00 (Revised from Rs. 60.00 crores)	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB-/Stable (Assigned)

Contacts

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About Acuite Ratings & Research:

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