Rating Rationale

SLN Coffee & Spices Exports Private Limited

29Jul2019

Brickwork Ratings upgrades the long term rating to 'BWR BB' and reaffirms the short term rating at 'BWR A4' for the enhanced bank loan facilities of Rs. 62.00 Crore of SLN Coffee & Spices Exports Private Limited *['SCSEPL' or 'the Company'],* Kushalnagar, Karnataka

Particulars

Facilities	Amount (Rs. Cr)		Tenure	Ratings*	
	Previous	Present		Previous	Present
Fund Based					
Cash Credit	5.00	20.00	Long Term	BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable Assigned	**BWR BB** (Pronounced as BWR Double B) **Outlook: Stable** Upgraded
Packing Credit	25.00	40.00	Short Term	BWR A4 (Pronounced as BWR A Four) Assigned	**BWR A4** (Pronounced as BWR A Four) Reaffirmed
Non Fund Based					
CEL (Forward Contract)	--	2.00			
Total	**30.00**	**62.00**	**INR Sixty Two Crores Only**		

**Note: Annexure I provides details of the credit facilities ; *Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings has essentially relied upon the audited financials upto FY18, provisional financials for FY19 and projections upto FY20, publicly available information and information/clarifications provided by the Company's management.

The rating upgrade factors the improved operational and financial performance of the Company. The ratings continue to reflect the long operational track record of the Karnataka based SLN Group, extensive industry experience of the promoters, established presence in the green coffee trading industry, moderate order book position, reputed and diversified clientele in domestic & exports markets and modest financial risk profile of the Company. The ratings, however, continue to be constrained by the thin profitability of the trading business, working capital intensity of operations, high gearing, exposure to price volatility of coffee in the domestic and export markets and risks of an intensely competitive industry segment.

Going forward, the ability of the Company to strengthen its client base, achieve its targeted turnover, improve profitability, strengthen its capital structure and manage its working capital effectively would be the key rating sensitivities.

Analytical Approach - Standalone

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

Brickwork Ratings believes that SLN Coffee and Spices Exports Private Limited **'s (**'SCSEPL' or 'the Company') business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement leading to improvement in cash accruals and the capital structure is strengthened, leading to strengthening of financial risk profile. The rating outlook may be revised to 'Negative' if the revenues go down, profit margins show lower than expected figures, working capital cycle is stretched pressurizing the liquidity position or any major debt funded capital expenditure plan leads to stress on the financial risk profile of the Company.

Key Rating drivers

<u>Credit Strengths</u>:

- **Long operational track record of the Group and extensive industry experience of the promoters-** The promoters have extensive industry experience and the SLN group has an established presence in the coffee business. Experience of the management in the industry has helped in easy sourcing of raw materials and acquiring customers in the market.

- **Reputed and diversified clientele in domestic & exports markets -** The Company has diversified and reputed clients for its domestic sale of green coffee such as Nestle India, Golden Bean Trading Corp, Aspinwall & Company Ltd, Karupar Commodities etc. The Company's major export buyers are Coca Cola Far East Ltd, Bernhard Rothfos GMBH, Walter Matter S A, RCMA Asia PTE Ltd, Tarek Kudsi Alattar, etc. The Company exports Green Coffee to European countries, mainly Italy and Germany.

- **Moderate order book position-** The Company has domestic and export sales orders to the extent of ~Rs 60 Crs on hand, for execution during next 1-2 months, despite being off-season (May-Dec) for green coffee market.

Credit Constraints:

- **High gearing levels -** With enhancement in debt levels and tangible net worth remaining low at 3.16 Crs, the Company's Total debt/ TNW stood at 17.54 times as on March 31, 2018. On a provisional basis during FY19, gearing ratio improved to 3.19 times on account of the improvement in net worth to Rs. 12.87 Crs. ISCR and DSCR were 1.38 times and 1.30 times respectively during FY18.

- **Susceptibility of the Company's revenues & margins to raw material prices:** The Company meets most of its coffee requirements through long term contracts with multiple domestic suppliers viz ITC Limited, Amrutha Coffee Pvt Ltd, Karupar Commodities, Coorg Commodities and Coffee Curers, etc. ITC Ltd alone accounts for ~60% of the supply. Also, the group company, SLN Coffee Pvt Ltd, contributes ~3%. Operating margins are low due to trading nature of the business and are exposed to commoditized nature of coffee. The company's earnings are exposed to the seasonal/ periodical swings in coffee prices, demand and supply scenario in the global markets and agro climatic conditions. Any adverse moment in prices will affect the profitability of the company, though it is partially mitigated by managing the inventory holding levels at minimal levels.

- **Highly competitive coffee business**
  The intense competition in the green coffee trading industry is limits the pricing flexibility of the Company and place pressure on margins.

- **Exposure to forex fluctuations**: Profitability is exposed to forex rates as around 35% revenue is derived from exports. However, forex risk is mitigated by way of natural hedging as the company has availed Packing Credit facility in Foreign Currency. The company also avails forward contract limit for hedging forex risk.

Liquidity - Stretched: Working capital utilisation remained high with an average utilisation of around 100% over the last one year, owing to the nature of business. As such, there is limited buffer to meet working capital needs**.** Current ratio was 1.05 times as on 31st March 2018. Net cash accruals to total debt was around 0.02 times as on 31st March 2018. Cash & Cash equivalents were Rs. 3.78 Cr as on 31st March 2019,as reported on a provisional basis. The operations are expected to remain working capital intensive and the company is reliant on external borrowings for its operations. Timely enhancement of working capital facilities will be critical for maintaining a comfortable liquidity position.

About the Company

The Karnataka based SLN Group, is engaged in coffee plantation, curing, trading in coffee beans, manufacturing of instant coffee powder and also roast and ground coffee powder. The Group has coffee plantations, since 1960, spread over 315 acres and has been in coffee trading and manufacturing business for over 18 years. In addition to the Coffee business, the Group also has interests in real estate and Hotels & Resorts business.

SLN Coffee and Spices Exports Pvt Ltd, was incorporated in April 2016, at Kudlur, Kushalnagar, Karnataka. Trading division of green coffee (both Arabica and Robusta beans) of the parent Company, SLN Coffee Private Limited (SCPL), has been hived off into SLN Coffee and Spices Exports Pvt Ltd with effect from 1st July 2016. The Company is engaged in black pepper trading,but it is not a core area. Domestic sales contributed 65% to total revenues in FY18 followed by Exports (35%). The Company exports Green Coffee to European countries, mainly Italy and Germany.

Mr. N. Sathappan and Mr. N. Vishwanathan are the full time directors.

Financial Performance

Key Financial Parameters

Particulars		**31 Mar 2017**	**31 Mar 2018**
		Audited	**Audited**
Net Revenue	Rs. Cr	21.39	439.86
EBITDA	Rs. Cr	0.14	3.52
Profit After Tax	Rs. Cr	0.27	0.91
Tangible Net Worth	Rs. Cr	2.24	3.16
Total Debt : Tangible Net Worth	Times	0.45	17.54
Current Ratio	Times	1.31	1.05

On a provisional basis, the Company has achieved sales of around Rs. 682 Cr during FY19. With the improvement in TNW to Rs. 12.87 Cr, the gearing level has improved to 3.19 times, during FY19.

Rating History for the last three years

<table>
<tr><th rowspan="2">Facilities</th><th colspan="3">Current Rating (July 2019)</th><th>Rating History</th></tr>
<tr><th>Amount (Rs. Cr)</th><th>Type</th><th>Ratings</th><th>22Jun 2018</th></tr>
<tr><td colspan="2">Fund Based</td><td></td><td></td><td></td></tr>
<tr><td>Cash Credit</td><td>20.00</td><td>Long Term</td><td>BWR BB
(Pronounced as BWR Double B)
Outlook: Stable
Upgraded</td><td>BWR BB-
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[Assigned]</td></tr>
<tr><td>Packing Credit</td><td>40.00</td><td rowspan="3">Short Term</td><td rowspan="3">BWR A4
(Pronounced as BWR A Four)
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</table>

Status of Non-Cooperation with other CRA: NIL

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Trading Entities
- Short Term Debt

Analytical Contacts	**Investor Contacts**
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Annexure I

Bank Loan Facilities

Bank	Facilities	Amount (Rs. Cr)
Canara Bank Main Branch, Madikeri	Cash Credit	20.00
	Packing Credit	40.00
	CEL (Forward Contract)	2.00
	Total	**62.00**

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.