

Rating Rationale

Sanwaria Consumer Limited

16 Jan 2019

Brickwork Ratings upgrades the ratings for the bank loan facilities of Sanwaria Consumer Limited (SCL or the Company).

Particulars

Facility	Previous Limits (Rs. Crs)	Present Limits (Rs. Crs)	Previous Rating (July-2017)	Previous Rating (Oct-2018)	Present Rating*
Fund Based					
Cash Credit	870.00	945.00	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable	Rating Not Reviewed	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable Upgrade
Proposed Fund Based	277.00	202.00			
Non Fund Based					
Bank Guarantee/Letter of Credit	189.00	94.00	BWR A3 (Pronounced as BWR A Three)	Rating Not Reviewed	BWR A2 (Pronounced as BWR A Two) Upgrade
Proposed Non Fund Based	121.00	216.00			
Total	1457.00	1457.00	(INR Fourteen Hundred and Fifty Seven Crores Only)		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

BWR has principally relied upon the audited financial results of FY16-FY18, Projected financials of FY19-20, publicly available information and information/clarification provided by the company's management.

Rating: Upgradation of Long term rating at BWR BBB+/Stable and Short term rating at BWR A2.

Rationale:

The rating upgrade takes into consideration the consistent revenue growth registered during FY16-FY18. The rating also factors the improvement in the capital structure and debt protection metrics aided by improved profitability. The rating continues to draw comfort from the experience of the promoters in the processing and trading of agricultural products, long term relation with suppliers and diversified product profile. The ratings are however constrained by working capital intensive nature of operations coupled with relatively high utilization of working capital facilities, vulnerability of company profitability to raw material price fluctuations and exposure to agro-climatic risks.

Key Rating Drivers:

Credit Strengths:

- **Established track record of the company with experienced management:** Established position of the company and long term experience of the promoters in processing and trading of agricultural products and with established network of suppliers and customers. SCL was promoted by the Late Mr. Ram N. Agarwal in 1991. Currently, his sons and grandsons are actively engaged in the day-to-day operations of the company.
- **Revenue Profile:** Year on year increase in scale of operations of the company marked by total operating income of Rs. 2695.25 Crs in FY16 to 3512.44 Crs in FY17 to Rs. 5054.73 Crs in FY18. The company has posted revenue growth of ~44% in FY18 as against FY17. The revenue from manufacturing activity was ~65% of the total revenue in FY18 as against 68% in FY17 and trading activity contributed to 35% of revenue in FY18 vis-à-vis 32% of revenue in FY17. The increase in the turnover is mainly on account of diversification to other agro products and tie ups with various retail chains and entry into direct retail under the 'Sanwaria Consumer Shoppy' by setting up its own stores have supported growth.
- **Product profile:** The Company has shifted its focus from soya products (~83% in FY15) to other agro products such as basmati rice, suji maida, dalia among others. Currently the product mix is as basmati rice (51 per cent), soya meal (13 per cent), Food grains & others (35 per cent), oil (1.88 per cent) and others, which brings in the risk of concentration with ~51% of the revenue in FY18 from the basmati rice segment which is highly fragmented and is marked by numerous players. However, SCL benefits to an extent because of its brand presence.

Credit Concerns:

- **Financial risk profile:** SCL financial risk profile is driven by moderate gearing and moderate cushion vis-a-vis debt repayment obligations. As per FY18 audited financials, SCL had total debt of Rs. 990.84 crore, resulting in a gearing of 1.78 times improved from 2.64 times in FY17. The company has fair interest coverage metric marked by ISCR of 2.51 times in FY18 improved from 1.65 times in FY17. The Debt to Ebitda of the company stood at 5.29 times in FY18 which has improved from 8.97 times in FY17 though continues to remain high.
- **High working capital intensity:** The Company's working capital intensity remains high, primarily due to high inventory and receivable levels coupled with relatively high utilization of working capital facilities with average utilization of cash credit facility at ~ 94%. As the company avails such facilities from multiple banks, occasional liquidity issues are seen in some of the banks.
- **Vulnerability of price volatility and Exposure to agro-climate risks** – The margins of the company are vulnerable to raw material price fluctuation, which in turn affects the sales realizations. Any adverse movement in the price of raw materials could have an impact on the company's margins, considering the high competitive intensity. Given its operations in an

agro-based industry, SCL is exposed to agro-climatic risks such as raw material availability, its quality and pricing.

- **Forex Risk:** As exports constitute ~10-15% of turnover, prudent hedging remains critical to mitigate exposure to forex risk.

Liquidity Position: The current ratio of the company stood at 1.43 times in FY18 as against 1.26 times in FY17. The company had Cash and bank balance of Rs. 8.96 Crs and receivable O/s of Rs. 916.03 Crs as of 31-3-2018. The working capital cycle of the company has remained stretched on account of extended receivable cycle and high inventory levels coupled with relatively high utilization of working capital facilities. The company has been servicing interest on Cash Credit (CC) within the permissible grace period.

Going forward, the ability of the firm to meet its projected turnover and profitability, manage forex exposure prudently, manage working capital efficiently and timely servicing of debt will be the key rating sensitivities.

Rating Outlook: Stable

BWR believes the **Sanwaria Consumer Limited** 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 company increases its scale of operations significantly along with improving its profitability margins. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures, or any stretch in the working capital cycle weakens liquidity.

Analytical Approach:

BWR has factored into standalone business and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked below.

About the Company:

Incorporated in April 1991, Sanwaria Agro Oils Ltd. commenced its operations in 1993. The company name was changed to Sanwaria Consumer Limited in August 2017. The Company has widened up the scope of its business from the Commodity based to FMCG Sector due to change in the revenue mix of the Company. Erstwhile, the Company was engaged in the production and selling of Soya Meal, Refined Oil and Crude Oil. Now the SCL revenue from operations include basmati rice, pulses, poha, sugar, soya chunks, wheat flour and other food grains products including soya meal and edible oil. Details of the subsidiaries of SCL are at Annexure I.

Company's Financial Performance:

Key Financial Parameters	FY18 (A)	FY17 (A)
Total Operating Income (Rs. Crs)	5054.73	3512.44
EBIDTA (Rs. Crs)	187.08	110.66
Total Debt (Rs. Crs)	990.84	993.42
Tangible Networth (Rs. Crs)	557.47	376.87
D/E (times)	1.78	2.64

For H1FY19, the company has reported revenue of Rs. 2495.0 Crs with PAT of Rs. 75.26 Crs vis-à-vis revenue of Rs. 2378.4 Crs with PAT of Rs. 44.69 Crs for H1FY18.

Rating History:

Sl. No.	Instrument /Facility	Current Rating (2019)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	Oct 2018	July-2017	Jan-2017
1	Cash Credit	Long Term	945.00	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook:Stable	Rating Not Reviewed	BWR BBB (Pronounced as BWR Triple B) Outlook:Stable	BWR BBB- (Pronounced as BWR Triple B minus) Outlook:Stable
2	Proposed Fund Based	Long Term	202.00	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook:Stable		BWR BBB (Pronounced as BWR Triple B) Outlook:Stable	BWR BBB- (Pronounced as BWR Triple B minus) Outlook:Stable
3	Bank Guarantee/ Letter of Credit	Short Term	94.00	BWR A2 (Pronounced as BWR A Two)		BWR A3 (Pronounced as BWR A Three)	BWR A3 (Pronounced as BWR A Three)
4	Proposed Non Fund Based	Short Term	216.00	BWR A2 (Pronounced as BWR A Two)		BWR A3 (Pronounced as BWR A Three)	BWR A3 (Pronounced as BWR A Three)
Total			1457.00	(INR Fourteen Hundred and Fifty Seven Crores Only)			

NA: Not Available

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NIL

Annexure I: Subsidiary Details as of 31-3-2018

Sr. No.	Subsidiary Name	% Holding
1	Sanwaria Energy Limited	100%
2	Sanwaria Singapore Pte Ltd	100%

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

For any other criteria obtain hyperlinks from website

Analysts	Media
Bal Krishna Piparaiya Senior Director – Ratings analyst@brickworkratings.com	media@brickworkratings.com Relationship Contact bd@brickworkratings.com
Phone: 1-860-425-2742	

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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.

**DISCLAIMER**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.