

RATING RATIONALE

31 Mar, 2020

Shreyas Sortex Industries Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 49.11 Crs of Shreyas Sortex Industries Pvt Ltd.

Particulars

Facility	Previously Rated Amount (Rs. in Crs)	Amount rated (Rs. in Crs)	Tenure	Previous Rating (June 2018)	Rating Assigned*
Fund Based	44.50	49.11	Long Term	BWR BB+ (Stable)	BWR BB+ (Stable) (Reaffirmation)
Total	44.50	49.11	INR Forty Nine Crores Eleven Lac Only		

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

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork ratings has reaffirmed the Long term rating to BWR BB+ with a stable outlook.

While reviewing the ratings of Shreyas Sortex Industries Pvt Ltd, BWR has factored in the experience of promoters in the business, well known customer base, YOY improvement in turnover and comfortable debt protection coverage. However, the rating is constrained by the high gearing ratio, working capital intensive nature of the business, exposure to risk relating to volatility in raw material prices and agro climatic risk, competitive and fragmented nature of rice milling business, low profit margins and inherent risk associated with the Basmati industry.

The outlook of the company is stable as it is having a consistent improvement in the financials over the past three years with improvement in installed capacity.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of Promoters** - Mr. Vinay Kumar Singh and Mrs Tara Singh are the directors of the company having an experience of more than 15 years in the rice industry.
- **Comfortable Debt Protection metrics** - Company has comfortable debt protection metrics as ISCR and DSCR stood at 2.22x and 1.62x respectively in FY19.
- **YOY increase in TOI and profitability** - The Company has been successful in achieving YOY growth in its topline. The Net Sales of the company has improved from Rs. 146.45 Crs in FY 17 to Rs. 257.78 Crs in FY19 showing an improvement of 76.01% due to improvement in installed capacity of plant from 20 MTPH to 40 MTPH.

Credit Risks:

- **High Gearing Ratio** - Firm has high Gearing Ratio (I.e TOL/TNW) stood at 6.93 times as on FY19 which has declined from 5.14x in FY18 due to increase in loans. The leverage is high as the unsecured loans have been treated as debt.
- **Working Capital Intensive operations** - The company is required to hold high inventory for seasoning to attain better quality. The company has reported a working capital conversion cycle of 99 days. Due to high inventory days of 157 days, working capital requirement is also on the higher side leading to higher interest cost..
- **Exposure to risks relating to volatility in raw material prices** - Paddy is the major raw material required and since rice is a seasonal crop and the production is highly dependent on monsoon season. The company is exposed to risk as paddy prices are largely dependent on several external factors including international and domestic demand and production.
- **Highly Competitive Industry** : The company operates in a highly competitive and fragmented industry characterised by a large number of unorganised as well as organised players thereby affecting the profitability margins of the company.
- **Agro climatic risks, which can affect the availability of the paddy in adverse weather conditions** - Rice being an agricultural commodity is exposed to vagaries of monsoon and other agricultural risks such as outbreak of diseases, lower/ higher than projected production levels (which impact the supply and hence the price), poor storage capacities and inconsistencies in quality. The company's ability to buy paddy of consistent quality at the right price is the key to success in the basmati rice industry.
- **Low Profitability** - The company has been operating at very low margins and has reported a decline in Net Profit margin from 1.32% in FY 18 to 0.86% in FY 19. Margins are low due to stiff competition.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Going forward, the ability of the firm to improve its scale of operations by improving its profitability margins and efficiently managing its liquidity would remain the key rating sensitivities.

Positive: The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement backed by healthy liquidity.

Negative: The rating outlook may be revised to 'Negative' in case revenues of the company substantially deteriorates from current level. Rating may also be adversely affected in case of adequate deterioration in gearing and coverage ratios.

LIQUIDITY POSITION (Adequate)

The Company has a Fund Based facility of Rs. 40 crs and its average utilisation of the fund-based limits is 90% over the 6 months ended Feb 2020. Company has cash accruals(PAT +DEP) of Rs 9.22 Cr in FY19 increased from Rs. 7.93 Crs in FY18 Crs against the CPLTD of Rs. 2.98 Crs.

COMPANY PROFILE

Shreyas Sortex Industries Pvt Ltd was incorporated in 2015 and promoted by Mr Vinay Kumar Singh and Mrs Tara Singh. The company processes parboiled rice at its plant at Gorakhpur, Uttar Pradesh. It has a total milling and sorting capacity of 40 MTPH which has increased from 20MTPH in FY 18. SSIPL started operations from November 2015.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Total Operating Income	Rs. in Crs	232.41	259.75
OPBDIT	Rs. in Crs	11.20	15.84
PAT	Rs. in Crs	3.06	2.23
Tangible Net Worth	Rs. in Crs	18.10	20.33
TOL/TNW	Times	5.14	6.93
Current Ratio	Times	1.21	1.24

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY : NA

RATING HISTORY

Nature of Instrument	Facilities Availed	Current Rating (March 2020)			Rating History for the past 3 years (Amount in (Rs. Crores))						
		Tenure	Amount (In Crs)	Rating	2019*	2018		2017			
Bank Loan Facility	Fund Based	Long Term	49.11	BWR BB+ (Stable) (Reaffirmation)		01 Jun 2018 <table><tr><td>FB</td><td>44.50</td><td>BWR BB+ (Stable)</td></tr></table>		FB	44.50	BWR BB+ (Stable)	-
FB	44.50	BWR BB+ (Stable)									
	Total		49.11	INR Forty Nine Crores and Eleven Lac Only							

- Rating was moved to the Rating Not reviewed category on 02 Sep 2019.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Sector](#)
- [Short Term Debt](#)

Analytical Contacts	Investor and Media Relations
Neha Wahi Primary Analyst +011-23412232 Extn 114 nehawahi@brickworkratings.com R K Sharma Senior Director – Ratings +011-23412232 Extn 104 rksharma@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

Shreyas Sortex Industries Pvt Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Oriental Bank of Commerce	Cash Credit	40.00	-	40.00
2		Term Loan	9.11	-	9.11
TOTAL					49.11

INR Forty Nine Crores and Eleven Lac Only

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