

February 04, 2021

## Shakumbhari Expo-Impo Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund based	17.50	17.50	[ICRA]A4; reaffirmed
Total	17.50	17.50	

\*Instrument details are provided in Annexure-1

## Rationale

The rating reaffirmation continues to favourably factor in the satisfactory track record Shakumbhari Expo-Impo Limited's (SEIL) in processing and exporting hulled sesame seeds to various countries. The ratings also favourably consider its established relationships with overseas customers. The extensive experience of the promoters in the sesame seed processing business supports the ratings as well.

The rating, however, is constrained by the 19% decline in SEIL's operating revenues in FY2020 and expected further decrease of 20% in FY2021. The rating is also constrained by the company's modest financial profile with high debt/OPBDITA levels and stretched liquidity position. Further, the rating notes the susceptibility of operations and profitability to any regulatory changes by the Government with respect to the export incentive structure and foreign trade policy. ICRA's rating also reflects SEIL's exposure to fluctuations in foreign currency exchange rates in the absence of hedging policies and exposure to credit risk in the absence of letter of credit (LC)-backed exports. ICRA also takes note of the risks associated with agro-commodities such as seasonality, climatic conditions and global demand–supply balance.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters** – The promoters have more than 20 years of experience in the sesame seed processing and export business.

**Established relationship with overseas customers** – The long operational track record of the company has helped it in establishing relationships with customers in the overseas market. This not only ensures repeat business but also provides future revenue visibility.

### Credit challenges

**Moderate scale of operations in intensely competitive industry** – SEIL's scale of operations remains moderate as evident in its top line of Rs. 70.34 crore in FY2020. Moreover, the Indian seed industry is highly fragmented and competitive due to the presence of a large number of players. This restricts SEIL's operating and financial flexibility.

**Exposure to agro-climatic conditions, regulatory changes and export incentives** – The agro-commodity processing and export business remains dependent on the agricultural sector's performance, which is impacted by a combination of factors like climatic conditions, prevailing demand–supply scenario, etc.

Further, the company's operating profitability is somewhat supported by export incentives. Any reduction in the same due to change in Government policies pertaining to foreign trade may impact the company's operations and profitability.

**Vulnerability of profitability to foreign currency exchange rate fluctuations** – Since exports dominate the revenues, the profitability remains vulnerable to fluctuations in foreign exchange rates. Also, SEIL remains exposed to credit risks as exports are not backed by LC from customers.

**Modest financial risk profile** – SEIL has a modest financial risk profile with moderate gearing of 1.32 times, interest coverage of 1.58 times, DSCR of 1.71 times and TD/OPBITDA of 9.24 times. The NWC/OI remains high at 45% due to the working capital-intensive nature of operations.

## Liquidity position: Stretched

SEIL has a stretched liquidity position due to limited cushion available to it in the absence of undrawn working capital limits. Utilisation of bank-funded limit as well as additional inventory funding limit has remained high throughout the year, constraining its financial flexibility. Moreover, long-term loan obligations limit the company's liquidity.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the company records sustained growth in scale with improved profit margins, leading to an improvement in the overall credit metrics. Interest coverage of more than 2.5 times on a sustained basis could lead to positive rating action.

**Negative factors** – The ratings could be downgraded in case of sustained decline in the revenues and profit margins. Any further stretch in the company's liquidity may exert downward pressure on the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of SEIL.

## About the company

Shakumbhari Expo-Impo Limited (SEIL) processes and exports hulled sesame seeds. It operates from its ISO 9001:2000 certified processing facility at Muzaffarnagar with an installed capacity of 7,200 MTPA. It deals in both naturally and mechanically hulled sesame seeds. Most of SEIL's revenues is generated through export to European nations.

### Key financial indicators (audited)

LTHL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	81.74	70.34
PAT (Rs. crore)	0.94	0.76
OPBDIT/OI (%)	3.95%	3.09%
RoCE (%)	8.1%	6.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.94x	1.86x
Total Debt/OPBDIT (times)	6.94x	9.24x
Interest Coverage (times)	1.63x	1.58x
DSCR (times)	1.54x	1.71x

Source: Company

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 30, 2020 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in	
					Feb 4, 2021	Nov 21, 2019	Jun 7, 2018	Feb 21, 2017	
1	Fund based limits	Short Term	17.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	

Source: Company

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

*Annexure-1: Instrument details*

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based limits	-	-	-	17.50	[ICRA]A4

Source: Company

*Annexure-2: List of entities considered for consolidated analysis*

Company Name	IOL Ownership	Consolidation Approach
NA	NA	NA

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