

June 22, 2022

Shree Ram Proteins Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-Term-Fund Based-Cash Credit	31.00	[ICRA]BB(Stable); assigned
Long-Term-Fund Based-Term Loan	6.15	[ICRA]BB(Stable); assigned
Short-Term-Non-Fund Based-Bank Guarantee	0.10	[ICRA]A4; assigned
Total	37.25	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in Shree Ram Proteins Limited's (SRPL) long track record and established relationships with customers in the solvent extraction industry, which would result in a steady revenue growth in FY2023 and FY2024. The extensive experience of the promoters in oil seed processing and related businesses will continue to provide support to the company's business growth. The location-specific benefits derived by the company owing to its proximity to raw material sources and end-use customers would continue to provide comfort to its business and profitability.

The ratings are, however, constrained by SRPL's modest scale of operations and low profit margins due to limited value addition and high working capital-intensive nature of its operations. The company's elongated working capital cycle, reflected in the high receivables and inventory levels, has resulted in stretched liquidity and is likely to be maintained at this level in the near term. SRPL remains exposed to the intensive competition and fragmented nature of the edible oil industry. The company's operations are exposed to price volatility and regulatory changes by the Government with respect to foreign trade policy and incentive structure. ICRA's ratings also reflect SRPL's exposure to the fluctuations in foreign exchange rates in the absence of any hedging policies. ICRA also takes note of the risks associated with agro-commodities such as seasonality, climatic conditions and global demand-supply balance.

The Stable outlook assigned to the long-term rating reflects ICRA's opinion that SRPL would continue to register a steady revenue growth, along with stable profitability backed by the experience of its promoters in the cotton and oil industry and from its location advantages.

Key rating drivers and their description

Credit strengths

Extensive experiences of promoters and established relationships with customers – SRPL's promoters have over a decade-long experience in the seed processing industry. Apart from this, the promoters have experience in other businesses, which include ginning, spinning, tea, etc. Additionally, the company's long operational track record has helped establish relationships with customers in the market. This ensures repetitive business with existing clientele and provides future revenue visibility.

Location-specific advantage – The company's manufacturing unit is located at Rajkot, Gujarat, which is a key cotton growing region of the country, along with the presence of a large number of ginning units around it. Hence, the company benefits in terms of lower transportation costs and easy access to quality raw material (cotton seeds).

Credit challenges

Modest scale, low profit margins and moderate debt coverage metrics – SRPL's scale of operations remains moderate, reflected in its operating income of Rs. 288.6 crore in FY2022 though it increased significantly from Rs. 152.6 crore in FY2021. The increase is primarily attributed to the elevated prices of agri-commodities including edible oil. However, the profit margins of the company remained low, given the limited value-added nature of its operations. SRPL reported operating profit margins of 4.7% in FY2022 and 3.8% in FY2021. The company's profitability is expected to improve in the future after the commissioning of a refining facility for edible oil. The debt coverage indicators remained moderate as reflected in the interest coverage ratio of 3.00 times and DSCR of 2.1 times in FY2022.

High working capital intensity and stretched liquidity – The working capital intensity has been high over the years and has remained around 50% during the past years mainly owing to the stretched debtor and high inventory levels. The debtor days were at 104 days as on March 31, 2021, and around 80 days (adjusted for the cheque not realised and shown as bank balance) as on March 31, 2022, mainly owing to the adverse market conditions. A substantial portion of the total debtors remain outstanding for more than 180 days, full and timely realisation of which remains crucial for the company's liquidity.

Intense competition and fragmented nature of the industry – The edible oil industry is characterised by high competitive intensity due to the presence of small and unorganised players and availability of cheap substitutes such as palm oil. The high competition limits the company's bargaining power with customers and suppliers and exerts pressure on its margins.

Exposure to agro-climatic conditions and regulatory changes – SRPL, being in the agro-commodity business, remains exposed to the domestic and global crop position as prices and availability are subject to seasonality and crop harvest. Regulatory changes like import duty structure, fluctuations in foreign exchange rates and minimum support price amendments have a bearing on the profitability of solvent extraction units. The company's profits are also exposed to the fluctuations in prices of raw cotton, oil seeds and oil imports, which in turn depend on various factors such as global demand-supply situations and export policies.

Liquidity position: Stretched

The liquidity position of SRPL remains stretched due to the high working capital intensity. The elongated working capital cycle, reflected in the high receivables and inventory levels and, almost-fully utilised working capital limits indicates stretched liquidity of the company. The company has a repayment obligation of Rs. 2.05 crore in FY2023 for the existing term loans. Further, the company is undertaking a capex of around Rs. 25 crore, which is proposed to be partly funded by a fresh debt. The repayment of the existing and future loans, along with the elongated working capital cycle would continue to exert pressure on the company's liquidity. The promoter's support in case of any cash flow mismatches will remain crucial to support the company's liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade SRPL's ratings if there is a sustained growth in its revenues along with an improvement in its profit margins. An improvement in the working capital cycle with reduction in the inventory/debtor levels, which leads to an improvement in the company's liquidity would be a key credit positive.

Negative factors – The ratings could be downgraded if there is a decline in the company's revenues and profit margins. Any further stretch in SRPL's liquidity may exert pressure on the ratings. Any time or cost overruns associated with the ongoing/proposed capex would be a key rating sensitivity. A specific credit metric for a downgrade is if DSCR remains below 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Edible Oil Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of SRPL.

About the company

Shree Ram Proteins Limited was incorporated in August 2008, by Rajkot-based Mr. Lalit Vasoya, Mr. Lavji Savaliya and their family members as a private limited company named as Shree Ram Proteins Private Limited, to carry out processing of cotton seeds and related trading activities. In 2017, the entity was converted into a public limited company, followed by a change in the name to Shree Ram Proteins Limited. The company was listed on the NSE in 2020, prior to which it was listed on the NSE Emerge Platform (SME) since 2018. At present, the company's processing plant includes cotton seed de-linting, de-hulling, cotton seed oil extraction and cotton seeds DOC. The company also deals in rapeseed oil, oil cake, soya oil, ground nut oil, mustard seeds/oil, rice bran and soya cake.

Key financial indicators (audited)

	FY2021	FY2022
Operating Income (Rs. crore)	152.6	288.6
PAT (Rs. crore)	0.8	6.1
OPBDIT/OI (%)	3.8%	4.7%
PAT/OI (%)	0.5%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)	7.6	3.1
Interest Coverage (times)	1.5	3.0

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Brickworks	BWR B/Stable and BWR A4; ISSUER NOT COOPERATING	June 06, 2022

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023 June 22, 2022	Date & Rating in		
						FY2022	FY2021	FY2020
1	Fund based —Cash Credit	Long Term	31.00	30.02	[ICRA]BB (Stable)	-	[ICRA]C; Withdrawn	[ICRA]C*
2	Fund based - Term Loans	Long Term	6.15	5.13	[ICRA]BB (Stable)	-	-	-
3	Non-Fund based - Bank Guarantee	Short Term	0.10	-	[ICRA]A4	-	[ICRA]A4; Withdrawn	[ICRA]A4*

Source: Company

*Update on material Event-Ratings downgraded

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based —Cash Credit	Simple
Fund based - Term Loans	Simple
Non-Fund based - Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

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	Cash Credit	-	10.30%	-	31.00	[ICRA]BB (Stable)
NA	Term Loan	Oct 09, 2020*	7.50%	Sep 09, 2024	6.15	[ICRA]BB (Stable)
NA	Bank Guarantee	-	-	-	0.10	[ICRA]A4

Source: Company

*Assuming date of first disbursement as sanction date of Term loan

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	IOL Ownership	Consolidation Approach
NA	NA	NA

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