

April 10, 2017

Sun Psyllium Industries

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	7.00	[ICRA]B+ (Stable); re-affirmed
Non-fund based Limits	10.00	[ICRA]A4; re-affirmed
Total	17.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus)¹ for the Rs. 5.00-crore² cash credit facility and Rs. 2.00 crore stand-by limit under exporter's gold card facility of Sun Psyllium Industries (SPI or the firm). ICRA has also re-affirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 10.00-crore packing credit facility of Sun Psyllium Industries. The outlook on the long-term rating is 'Stable'.

Rationale

The re-affirmation of ratings continues to remain constrained by the moderate scale of operations and the weak financial risk profile, as characterised by low profitability and modest coverage indicators. Furthermore, the working capital intensity remained high in FY2016 due to increase in inventory levels and extended receivables. The ratings also takes into account the exposure of the firm's profitability to the foreign currency fluctuations in absence of any formal hedging mechanism as exports forms majority i.e. ~64% of total sales in FY2016. ICRA also factors in the risks associated with the partnership form of business in terms of capital infusions and withdrawals and consequent impact to the capital structure of the firm.

The ratings continue to favorably factor in the established track record of the firm in the manufacture and export of psyllium husk as well as location advantages enjoyed by the firm by virtue of its location in Unjha in Gujarat which provides easy accessibility to key raw materials and proximity to ports.

The profitability of the firm would remain vulnerable to agro-climatic conditions leading to fluctuations in raw material prices. Further, the firm's profitability would also be exposed to the change in export incentives policy of the government. Going forward, the ability of the firm to enhance its scale of operations while improving profitability and effective management of working capital requirements, thereby improving its capital structure, will remain some of the key rating sensitivities.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers**Credit strengths**

- Long and established presence of the firm in the manufacturing and export of psyllium husk
- Location advantage by virtue of being located near the raw material source and major ports for exports

Credit weaknesses

- Moderate scale of operations
- Low profitability and modest debt-coverage indicators
- Increased working capital intensity because of high inventory holding and receivables
- Exposure to foreign currency fluctuations as exports constitute majority of the total sales of the firm
- Partnership firm; any substantial withdrawals from capital account would impact net worth and thereby gearing levels

Description of key rating drivers highlighted above:

Sun Psyllium Industries is involved in processing of psyllium seeds. Its plant location at Unjha (Gujarat) gives SPI ease of procuring raw materials as Unjha is the largest trading centre for psyllium seeds in India. Proximity to the Kandla and Mundra ports provides an additional location advantage to the firm as export sales accounted for 64% of SPI's total sales in FY2016. The firm posted revenue growth of ~26% in FY2016 over FY2015 on account of increase in sales volume and improvement in sales realisations. The profitability of the firm has remained low on account of higher raw material consumption cost. The firm's profitability is supported to some extent by export incentives under (Government of India) GoI's duty drawback and Merchandise Exports from India scheme (MEIS). Any change in export incentives directly affects the profitability of the company. As the firm does not have a practice of hedging its foreign currency receivables, the profitability is exposed to unfavorable movements in exchange rates.

The working capital intensity of the firm as reflected by NWC/OI (Net working Capital Intensity/Operating Income) has increased from 8% in FY2015 to 22% in FY2016 mainly on account of year end purchases in the anticipation of rise in prices of psyllium seeds. Consequently, the working capital requirements of the firm have increased leading to an increase in total debt to Rs. 10.89 crore as on March 31, 2016 as against Rs. 7.22 crore as on March 31, 2015. The gearing stood at 1.6 times as on March 31, 2016.

Analytical approach:

For arriving at the ratings, ICRA has taken into account the standalone financial of SPI, along with its business risk profile and the management profile. The company operates as a standalone entity and doesn't have any subsidiary at present.

Links to applicable criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

About the company:

Sun Psyllium Industries (SPI) was established in 1989 to manufacture psyllium husk powder from psyllium seeds (or Isabgol). The plant has an installed capacity to process 8,400 Metric Tonnes psyllium seeds annually. The firm has presence in domestic as well as overseas markets. The firm is currently managed by Mr. Pravin Patel, Mr. Bharat Patel and Mr. Vishnu Patel. They are also partners in Sun Enterprise. The family has been in this business for around 28 years.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating (2018)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				April 2017	April 2016	June 2015	April 2015
1	Cash Credit	Long-Term	5.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+; Suspended
2	Stand-by limit under exporter's gold card	Long-Term	2.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+; Suspended
3	Packing Credit	Short-Term	10.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4; Suspended

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 www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	N.A.	N.A.	N.A.	5.00	[ICRA]B+ (Stable)
Stand-by limit under exporter's gold card	N.A.	N.A.	N.A.	2.00	[ICRA]B+ (Stable)
Packing Credit	N.A.	N.A.	N.A.	10.00	[ICRA]A4

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About ICRA Limited:

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