Sri Sai Baba Enterprises

February 15, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Cash Credit	12.00	12.00	[ICRA]B+ (Stable); Reaffirmed
Long Term- Term Loan	2.07	1.74	[ICRA]B+ (Stable); Reaffirmed
Long Term- Unallocated	3.93	4.26	[ICRA]B+ (Stable); Reaffirmed
Total	**18.00**	**18.00**	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]B+ (pronounced ICRA B plus) to the Rs. 13.74-crore[1] fund-based limits and Rs. 4.26-crore unallocated limits of Sri Sai Baba Enterprises (SSBE)[2]. The outlook on the long-term rating is 'Stable'.

Rationale

The rating factors in the extensive experience of the partners spanning over four decades in the cotton ginning industry resulting in the established customer and supplier base of the firm. The rating also considers the location advantage with firm's proximity to cotton growing areas of Adilabad, providing logistic advantage.

However, the rating is constrained by the company's moderate financial risk characterised by high gearing and moderate debt protection metrics in FY2018. The rating also factors in the moderate scale of operations in the highly fragmented ginning industry and commoditised nature of the product, leading to low pricing power. The firm's revenues and profitability are exposed to fluctuations in the prices of raw material, cotton, which is an agro-commodity, and its prices are subject to seasonality and crop harvest. Further, the rating considers the risks associated with partnership nature of firm.

Outlook: Stable

ICRA believes SSBE will continue to benefit from the extensive experience of its partners and established customer relationships. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens its liquidity.

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[1] *100 lakh = 1 crore = 10 million*

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

Key rating drivers

Credit strengths

Long experience of partners - The partners have extensive experience in cotton ginning and trading business. The partners operate other companies engaged in the similar line of business leading to established supplier base and sales network.

Locational advantage – The firm's plant is located near major cotton-growing area of Telangana, resulting in easy availability of raw material and savings in transportation costs.

Credit weaknesses

Moderate scale of operations- The firm's scale of operations remained moderate with revenues of Rs. 167.7 crore in FY2018. The revenues are expected to decline in FY2019 due to unavailability of kapas.

Moderate financial risk profile – The firm's financial risk profile remained moderate with high gearing of 5.0 times as on March 31, 2018 and moderate debt protection with interest coverage at 2.3 times, DSCR at 1.7 times and NCA/total debt at 5.2% in FY2018.

Intense competition and fragmentation in the industry given the low entry barriers - The firm faces stiff competition from organised and unorganised players limiting its pricing flexibility and bargaining power.

Profitability exposed to fluctuation in raw material prices which is subject to seasonality and Government regulations – The firm's profit margins are exposed to the fluctuation in raw material prices, which depend upon factors like seasonality, monsoon condition, international demand and supply situation, export policy etc. Further, it is exposed to the regulatory risks, as prices are decided through the minimum support price, set by the Government.

Inherent risks being a partnership firm - Being a partnership firm, it is vulnerable to capital withdrawals by the partners.

Liquidity Position:

The firm's liquidity position remains moderate given limited term loan repayments, moderate average working capital utilisation of 47.0% for the period October 2017 to October 2018 and no major debt funded capex in the near term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements

About the company:

Sri Sai Baba Enterprises (SSBE) was established in June 2016 and began operations from November 2016. The firm was set up as a cotton ginning and pressing unit with an installed capacity of 48 ginning machines or capacity to process 250 MT of cotton per day. The unit is a partnership firm and Mr. Santosh Goyal is the Managing Partner. The partners have vast experience of over 40 years in this field.

In FY2018, the firm reported a net profit of Rs. 0.5 crore on an operating income of Rs. 167.7 crore, as compared to a net profit of Rs. 0.4 crore on an operating income of Rs. 95.2 crore in 5M FY2017.

Key Financial Indicators (Audited)

	5M FY 2017	FY 2018
Operating Income (Rs. crore)	95.2	167.7
PAT (Rs. crore)	0.4	0.5
OPBDIT/ OI (%)	0.9%	1.1%
RoCE (%)	-	5.5%
Total Debt/ TNW (times)	5.1	5.0
Total Debt/ OPBDIT (times)	7.8	11.7
Interest coverage (times)	4.1	2.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					February 2019	December 2017	November 2016	-
1	Cash Credit	Long Term	12.00	NA	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
2	Term Loans	Long Term	1.74	1.74	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
3	Unallocated	Long Term	4.26	NA	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B	-

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: 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	NA	NA	NA	12.00	[ICRA]B+ (Stable)
NA	Term Loan	December-2016	NA	March-2021	1.74	[ICRA]B+ (Stable)
NA	Unallocated	NA	NA	NA	4.26	[ICRA]B+ (Stable)

Source: Sri Sai Baba Enterprises

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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