

Sohan Lal Commodity Management Private Limited

June 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	15.00	CARE BBB; Stable / CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Ltd, while assigning the ratings to the bank facilities of Sohan Lal Commodity Management Private Limited (SLCM India), has taken a view based on the consolidated financials of SLCM India, North End Foods Marketing Pvt. Ltd (NEFM), SLCM Limited (Myanmar) and Kissandhan Agri Financial Services Pvt Ltd (KAFPL) as all these entities have strong operational and financial linkages and operate under a common management.

The ratings assigned to the bank facilities of SLCM derives strength from its promoter's long-standing experience in the agro commodity business, established position of the SLCM in agri-commodity warehouse and collateral management services. The ratings also take comfort from comfortable capital structure of the group characterized by satisfactory network base and comfortable overall gearing. The rating takes cognizance of stagnant growth in scale of operations during FY24 (Provisional) (refers to the period from April 01 to March 31), albeit improvement in profitability. The rating further takes into account the presence of strong investor base in SLCM and adequate liquidity position. However, the group's ability to scale up its operations while maintaining adequate profitability margins and asset quality will be a key rating monitorable. The ratings are, however, constrained by the risks emanating from significant volatility in the agriculture commodity prices, performance of agriculture commodities being primarily dependent on monsoon conditions, economic environment as well as changes in the government regulations and intense competition in the warehousing business with presence of few established players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable growth in total operating income and improvement in profitability profile.
- Mobilize resources in the warehousing business and control the operational cost along with sustained improvement in revenue.

Negative factors

- Decline in cash surplus and liquidity buffers beyond a threshold which could impact the risk absorption ability and increase in gearing levels beyond 1.80 times on a sustained basis.
- Consistent decline in profit margin, indicating inefficiencies in the operations, resulting in PBILD margins below 5% & total debt/PBILD beyond 3.00 times.
- Any materialization of contingent liability related to ongoing GST litigation leading to significant outflow of fund, resulting in the weakening of overall liquidity position of the company.

Analytical approach: Consolidated

SLCM has three subsidiaries viz. SLCM Limited, Myanmar, North End Foods Marketing Private Limited and Kissandhan Agri Financial Services Private Limited and as all these entities have strong operational and financial linkages and operate under a common management, a consolidated approach has been taken. The list of entities considered for consolidation is given in Annexure-6.

Outlook: Stable

The Stable outlook on SLCM group reflects CARE's opinion that the group will continue to benefit from vast experience of promoters in agri-commodity business, established network of the group in warehousing, collateral management and agri lending.

Detailed description of the key rating drivers:

Key strengths

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong promoter group with long track record of operations in agri-business and strong investor base

SLCM India is one of the leading agri-logistics companies in India. SLCM is a professionally managed group with integrated operations and NEFM is the wholly owned subsidiary of SLCM India. The group is governed by experienced board of directors through nominee representatives of seven private equity fund investment companies in the group, viz., Nexus Venture Partners, Mayfield Funds, Everstone Capital, Creation Investments Capital Management, Emerging India Fund, responsibility Participations Mauritius and agRIF Cooperatief UA. The company is headed by Mr. Sandeep Sabharwal, group CEO of the SLCM group, who has experience of over two decades in the agro commodity business. He is instrumental in setting up the professional warehousing business of the company and is supported by a management team with significant experience in the industry.

Comprehensive business model of the group with strong IT and MIS set-up

SLCM India, along with its subsidiaries, NEFM and KAFSPL, provides the entire supply chain solutions for agri commodities. The services provided by the group include agri-commodity warehouse and collateral management services and other allied services such as testing and certification (provided by SLCM India), procurement of commodities (carried under its wholly owned subsidiary NEFM) and working capital financing against Storage Receipts (SR) as collateral (carried under its wholly-owned subsidiary KAFPL). The group has also introduced microfinance segment, loans to farmers' producer organisation and lending through BC partners in KAFPL along with existing capital financing against SR in order to diversify its overall portfolio to reduce concentration risk. Thus, the SLCM group serves as a multi-modal single window supply chain solutions provider and is one of the leading players in the industry with a technology-enabled network to manage its operations. The group has also ventured into Myanmar through its subsidiary, SLCM Limited, wherein it is carrying on warehousing and the allied activities.

The SLCM group has created robust technology-enabled system, namely, Agri Reach, Agri Suraksha for collateral management which is integrated with SAP-based IT system electronic commodity-based funding (e-CBF) for complete business integration.

Strengthening of risk management practices

The group has devised specific risk management practices for each and every commodity to counter risk from volatile agri commodity prices. The main risk for SLCM India lies in the storage and maintenance of the crops and seeds in the required quality and conditions. Therefore, SLCM has set-up internal quality control team for regular quality assessment and control of the commodities along with 24/7 video surveillance of the warehouses and also the stocks are fully insured. For NEFM, the main risk arises from sharp fluctuation in commodity prices. In order to manage the risk of volatility in prices, all of NEFM's purchases are order backed with the price fixed at the time of contract and the price risk being borne by the beneficiary for whom NEFM does the procurement. In case of non-exchange traded commodities, NEFM seeks close to 25% advance margin from the client and margin calls are made if there is mark-to-market (MTM) loss of more than 5% based on weekly price discovery in physical market. The stocks are liquidated in case the margin falls below 10% and the client is unable to provide the top-up margin (additional stock or cash). NEFM has further tightened its margin requirement norm to 30%-35% as per the new risk management policy effective from November 2019. The lending business under KAFSPL is safeguarded as loans are extended only against SLCM's warehousing receipts. KAFS operates on a loan-to-stock hypothecated value (LTV) ratio of 70%-80% largely with the commodity prices MTM on an ongoing basis.

Comfortable capital structure

The capital structure of the company stands comfortable with an overall gearing of Rs.0.34x in FY24 (Prov.) (PY: 0.47x). The company at consolidated level has satisfactory networth base of Rs. 339.31 crore in FY24 (Prov.). The Company's total debt majorly comprises of working capital borrowing of Rs.110.61 crore at group level. Further, there are nil sanctioned bank limits in SLCM (India).

Key weaknesses**Stagnant operational performance, albeit improved profitability in FY24 (Prov.)**

The consolidated gross revenue of the group stands at Rs. 483.05 crore in FY24 (Prov.) as against Rs.487.02 crore in FY23, reflecting muted growth in TOI. Overall, the group reported improvement in profitability during FY24 (Prov.) with PAT improving to Rs. 17.27 crore as compared to Rs.3.10 crore in FY23. The group reported EBITDA of Rs.40.15 crore in FY24 (Prov) as against EBITDA of Rs. 10.06 crore in FY23. The improvement in EBITDA was majorly led by better operational performance by SLCM and Kissandhan, as there is sharp increase in the AUM size under SLCMPL, as on March 31, 2024. SLCM India had AUM of Rs.10,928 crore which has increased from Rs.6,390 as on March 31, 2023. However, the operational performance of NEFM moderated due to fluctuation in the price of traded goods. The warehousing model (undertaken by SLCM India) involves thin margins/losses on a standalone basis given the heavy investment on monitoring and risk management, it being the backbone of the other businesses of procurement and lending.

Susceptibility to volatility in agri-commodity prices

The group remains susceptible to sharp fluctuation in market prices. Also, the variation in commodity prices at various mandis, for various grades and at times lack of consistency with commodity exchanges could lead to dispute with customer and consequently litigation risk. However, group’s adequate risk management systems, market intelligence enabling to track prices on daily basis for various grades of commodities and decision making to liquidate the inventory in case of decline in prices mitigate the risk.

Intense competition in the warehousing and agri-lending business coupled with high government regulations

Since SLCM India is the main company of the group, SLCM faces competition in the warehousing industry which leads to increase in warehouse lease rentals at strategic locations. The warehousing industry has few other established players, and it is not always possible to pass on the rise in warehouse rentals completely. However, SLCM has worked on revenue sharing model rather than fixed rental. SLCM is also exposed to the risk of crop failure in a particular location which may lead to sub-optimal utilization of the warehousing space. The government regulations on the essential food items also impact the occupancy of the warehouses leased by the company thereby impacting the income and profitability of SLCM. However, the company follows a leased based model of hiring the warehouses wherein the warehouses can be de-hired at a notice of 1 month which allows the company to manage the risks emanating from lower occupancy. Further, Kissandhan also has to compete against banks and other NBFCs who can lend at cheaper rates compared to Kissandhan. Thereby, ability of Kissandhan to maintain its spread with increasing volume will be critical for its sustenance in the agri lending business. For North End, prompt liquidation of the stocks upon stock limits on certain commodities imposed by the government from time to time or increase in MSP result in lower procurement or holding period thereby impacting the profitability.

Ongoing GST Matter:

NEFM faced GST issues earlier in FY20, related to stock seizures and blocked input tax credit. However, after appeals and proceedings, demands were dismissed by the first appellate authority. Despite of favourable order passed in earlier cases the department has initiated revisional proceedings and further raised a demand of Rs. 389 Crores in July 2023. With favourable order in hand from first appellate authority for earlier case, the company is contesting the same in Hon’ble High Court and is confident of a positive outcome. Going forward, any materialization of contingent liability related to GST litigation shall remain key monitorable.

Liquidity: Adequate

The liquidity position of the company is adequate as the company doesn’t have any term debt obligation. SLCMPL (on a consolidated level) has liquidity (cash and bank balance) of ~Rs.8.34 crore as on March 31, 2024 (Dec 31, 2023: Rs.9.93 crore). The overall utilisation of working capital limits also remains comfortable with average utilisation of working capital limits stood at ~45%. Given, moderate gearing levels, comfortable working capital utilisation, the liquidity position of the company is expected to be adequate.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

- [Consolidation](#)
- [Definition of Default](#)
- [Financial Ratios – Non-financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Short Term Instruments](#)
- [Service Sector Companies](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Logistics Solution Provider

The Sohan Lal group is one of the leading agri-logistics groups providing supply chain solutions. SLCM deals in agri-commodity processing and warehousing for over two decades. The group's flagship company is SLCM India, which was incorporated in 2009, and is engaged in dealing in agri-commodity warehouse and collateral management with asset under management of close to Rs. 10,928 crores as on March 31, 2024, managed through a network of over 1,958 warehouses. The below presented brief financials are consolidated numbers of SLCM group.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	465.38	487.02	483.05
PBILDT	-0.72	10.06	40.15
PAT	-4.25	3.10	17.28
Overall gearing (times)	0.10	0.47	0.34
Interest coverage (times)	-0.40	1.58	1.94

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	15.00	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	1)Withdrawn (02-Apr-24)	-	1)CARE BBB; Stable / CARE A3+ (27-Mar-23)	1)CARE BBB; Stable / CARE A3+ (25-Mar-22)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	15.00	CARE BBB; Stable / CARE A3+				

LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of all the entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	North End Foods Marketing Pvt. Ltd (NEFM)	Full	Subsidiary
2	SLCM Limited (Myanmar)	Full	Subsidiary
3	Kissandhan Agri Financial Services Pvt Ltd (KAFPL)	Full	Subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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