

## TSS Foods

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	4.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facilities of TSS Foods (TSS) remains constrained on account of overall moderate financial risk profile marked by moderate profitability, leveraged capital structure, weak debt coverage indicators and stretched liquidity. The ratings further remain constrained due to TSS's constitution as partnership firm, its presence in highly fragmented and competitive rice industry along with vulnerability to unfavourable regulatory changes, susceptibility of its profitability to fluctuation in raw material prices along with linkages to vagaries of the monsoon.

The ratings, however, derive strength from experienced management and growing albeit moderate scale of operations.

### Rating sensitivities:

#### Positive factors

- Sustaining scale of operations marked by total operating income (TOI) above Rs. 250 crore with sustaining PBILDT margin above 2.5%.
- Improvement in capital structure marked by overall gearing below 2.5x on sustained basis.
- Improvement in PBILDT interest coverage above 2.5x and TDGCA below 10x.
- Improvement in liquidity position with improving working capital cycle to below 50 days and generating positive cash flow from operations on sustained basis.

#### Negative factors

- Decline in total operating income below Rs.150 crore
- Deterioration in capital structure marked by overall gearing above 5x
- Deterioration in liquidity position with elongation in operating cycle by 50 days

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects that TSS will sustain its overall financial risk profile marked by moderate scale of operations and profitability

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Moderate profitability, leveraged capital structure and weak debt coverage indicators

TSS's profitability remained moderate owing to low value addition nature of business marked by PBILDT margin of 2.69% during FY24 and 3.85% during FY23. Consequently, PAT margin remained thin at 0.64% during FY24 and 0.54% during FY23. However, profitability is expected to improve going further with upcoming 1 MW solar plant installation project. The total cost for the project is expected at Rs.4.50 crore to be funded through term loan of Rs.4 crore and remaining through promoter's contribution.

The capital structure remained leveraged marked by overall gearing of 3.60 times as on March 31, 2024, owing to higher utilization of working capital limits as on Balance sheet date. Further, debt coverage indicators also remained weak marked by total debt to gross cash accruals (TDGCA) of 16.07 years and interest coverage ratio of 2.34 times during FY24.

#### Partnership nature of constitution

The constitution of the entity being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingencies and restricts its overall financial flexibility in terms of limited access to external fund and ability to absorb losses or financial exigencies. However, the partners have infused Rs.3.99 crore and Rs.2.02 crore in FY24 and FY23 respectively to meet the working capital requirement with increase in scale of operations.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Presence in highly fragmented and competitive industry along with vulnerability to unfavourable regulatory changes**

The commodity nature of paddy makes the industry highly fragmented with numerous players operating in the unorganized sector. The raw material (paddy) prices are regulated by government to safeguard the interest of farmers, which in turn limits the bargaining power of the rice millers. Moreover, the Government of India (GOI) every year decides a minimum support price (MSP - to be paid to paddy growers) for paddy. However, the price of finished product i.e. rice is determined by market forces of demand and supply. Given the market determined prices for finished product vis-à-vis fixed cost for raw material, the profitability margins of rice millers/processors are highly vulnerable, especially in times of high paddy cultivation.

**Susceptibility to fluctuation in raw-material prices and monsoon dependent operations**

Agro-based industry is characterized by its seasonality, due to its dependence on raw material whose availability is affected directly by the vagaries of nature. The price of rice moves in tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions. Adverse climatic conditions can affect their availability and leads to volatility in raw material prices. Paddy is the major raw material, and the peak paddy procurement season is during November to January during which the firm builds up raw material inventory to cater to the milling and processing of rice throughout the year. The monsoon has a huge bearing on crop availability which determines the prevailing paddy prices. Since there is a long-time lag between raw material procurement and liquidation of inventory, the firm is exposed to the risk of adverse price movement resulting in lower realization than expected.

**Key strengths****Experienced Management**

TSS is promoted by members of Soni family viz. Swapnil Soni, Chandra Shekhar Soni, Manoj Soni, Mithlesh Soni, Anju Soni, Saraswati Soni and Harsh Raj Soni. Mithlesh Soni looks after finance Department, Manoj Soni looks after paddy procurement and Chandra Shekhar Soni looks after rice sales and distribution. All the promoters have been actively involved in rice business for the past two decades. Initially, they were engaged in trading activities, which gave them valuable experience in their respective areas of operations. Due to vast experience of promoters, they have developed good relationship with its customers and suppliers. Moreover, promoters are resourceful and infuse funds in the form of capital and unsecured loans as and when required to support its operations.

**Growing albeit moderate scale of operations**

The scale of operations marked by TOI grew at CAGR of 46% for past three years ended FY24. TOI grew significantly by 63% to Rs. 262.32 crores in FY24 as against Rs. 159.08 crores in FY23. The increase in TOI in FY24 is attributed to higher sales volume with increase in installed capacity from FY24 onwards along with better realizations.

**Liquidity:** Stretched

Liquidity remained stretched as indicated by moderate liquidity ratio, seasonal business leading to fluctuations in utilization in working capital limits, low cash and bank balance and elongated operating cycle. The current ratio and quick ratio stood moderate at 1.06x and 0.38x respectively, as on March 31, 2024. The average utilization of working capital limits for the past twelve months period remains around 40% ended May 2024. However, during peak season (generally October to March), the firm utilizes 80-90% of their limits. Working capital cycle although improved in FY24, it remained elongated at 79 days as on March 31, 2024, as against 103 days as on March 31, 2023. Further, gross cash accruals remained at Rs.4.08 crore during FY24 which remains sufficient to repay debt obligations of ~Rs.2 crore during FY25.

**Applicable criteria**[Definition of Default](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Rating Watch](#)[Manufacturing Companies](#)[Financial Ratios – Non financial Sector](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

Raisen (Madhya Pradesh) based TSS Foods (TSS) is a partnership firm established in August 2015. TSS is promoted by members of Soni family viz. Swapnil Soni, Chandra Shekhar Soni, Manoj Soni, Mithlesh Soni, Anju Soni, Saraswati Soni and Harsh Raj Soni. The entity is engaged into manufacturing, distributing and supplying basmati rice under the brand name of "Shree Bhog". The commercial operations commenced from 2017 at their plant located at Raisen, Madhya Pradesh. The installed capacity is 14 Metric tons per hour as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	159.09	262.32
PBILDT	6.13	7.05
PAT	0.85	1.69
Overall gearing (times)	4.10	3.60
Interest coverage (times)	2.12	2.34

A: Audited, P: Provisional; 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 - LT-Proposed fund based limits		-	-	-	4.00	CARE BB; Stable

**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 - LT-Proposed fund based limits	LT	4.00	CARE BB; Stable	-	-	-	-

LT: Long 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 - LT-Proposed fund based limits	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**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](mailto:care@careedge.in) for any clarifications.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Kalpesh Ramanbhai Patel Director <b>CARE Ratings Limited</b> Phone: 079-40265611 E-mail: <a href="mailto:kalpesh.patel@careedge.in">kalpesh.patel@careedge.in</a>
<b>Relationship Contact</b>  Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a>	Sajni Shah Assistant Director <b>CARE Ratings Limited</b> Phone: 079-4026 5636 E-mail: <a href="mailto:Sajni.Shah@careedge.in">Sajni.Shah@careedge.in</a>
	Nandini Bisani Rating Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Nandini.Bisani@careedge.in">Nandini.Bisani@careedge.in</a>

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