

Sarala Foods Private Limited

August 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	18.00	CARE BB; Stable; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE has been seeking information from Sarala Foods Private Limited to monitor the ratings vide e-mail communications dated June 15, 2024, to August 16, 2024, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Sarala Foods Private Limited's (SFPL) bank facilities will now be denoted as CARE BB; Stable; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The reaffirmation in ratings assigned is on the back of stable revenue from operations however the ratings continue to stay in INC category due to non-availability of requisite information and non-cooperation by Sarala Foods Private Limited with CARE'S efforts to undertake a review of the rating outstanding. CARE Ratings views information availability risk as a key factor in its assessment of credit risk.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that SFPL will continue to benefit from promoter's extensive experience and support through infusion of funds, as required.

Detailed description of the key rating drivers:

At the time of last rating on [July 31, 2024](#) the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies:

Key weaknesses

Thin profitability margins: The profitability margin of the company stood thin as the company is engaged in the trading business in highly fragmented and competitive industry. During FY23, the company has reported PBILDT margin and PAT margin of 2.30% and 1.35% respectively against 1.57% and 1.34% during FY22.

Moderate capital structure and debt coverage indicators: Backed by healthy accruals, improving net-worth base however, relatively higher working capital utilisation, the capital structure of the company represented by overall gearing deteriorated to 1.93x as on March 31, 2023 from 0.85x as on March 31, 2022. The debt coverage indicators of the company represented by PBILDT interest coverage ratio also declined to 6.10x during FY23 from 8.76x during FY22 on account of significant increase in the PBILDT levels of the company during FY23. The company total debt to GCA has also declined from 1.72x during FY22 to 5.07x during FY23 on account of increase in total debt and improvement in GCA during FY23.

Client concentration risk albeit reducing: The company have established relationship with clients which resulted in repeat orders from them. The revenue profile of the company, however, is concentrated with top three clients contributing to around 65% of total sales in FY22. However, the company is mitigating the said risk by adding new clients to its portfolio. The company was highly focused on Terra Firma Commodities (Terra) for selling its products in African countries, but the reliance of Terra has now reduced significantly from 50% of sales in FY20 to 26% in FY22 with setting up its own base in African continent thus reducing dependence on intermediaries.

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

Stiff competition in trading business and agro-climatic risk: The rice trading industry is highly competitive and fragmented in nature owing to low entry barriers due to minimal capital required and easy access to clients and suppliers resulting in presence of large number of unorganized players in the market. Also, the presence of big-sized players with established marketing & distribution network results makes the industry highly competitive. The industry is cyclical with prices of the commodities driven by demand and supply conditions in the market with strong linkage to the global market. Due to high competition profitability margins tend to remain thin in the industry. Furthermore, business operations of the company are exposed to risk associated with paddy price fluctuations, crop availability being dependent on monsoons, changing government regulations, seasonal nature of business and other factors like paddy quality and yielding etc.

Key strengths

Experienced management with long track record in rice trading business: SFPL was incorporated in 2005 by Mr Vinod Agarwal who has 32 years of experience in rice trading business. Mr. Vinod Agarwal is well known in the industry and holds prominent positions such as president of Andhra Pradesh rice brokers association and secretary of Andhra Pradesh rice exporter association. The company is currently managed by Ms. Honey Agarwal, who is Chartered Accountant by qualification. She is also Chief Financial Officer (CFO) of the company and looks after the overall business operations of the company and is engaged business development activities. SFPL has an established track record of operations in rice trading business for several years. By virtue of being in the trading business for considerable period, the promoters of the company have developed strong business relation with suppliers and buyers. The company stands to benefit from its qualified and experienced promoters and gives it an advantage over competition to a large extent.

Healthy and continuous growth in sales during FY20-FY23: The scale of operations of SFPL as indicated by total operating income (TOI) have exhibited healthy and continuous growth trend during last three financial year FY20-FY23(Audited). TOI of the company has improved by 7.71% from Rs 902.06 crore in FY22 to Rs 984.43 crore in FY23. The increase was led by continuous increase in export backed by healthy and growing demand for non-basmati rice till FY23.

Wide geographical market presence: SFPL has diversified geographical presence with products being exported to the markets of Africa, Vietnam, Europe etc. The export income contributed around 92% (PY: 77%) to the total sales during FY22. The company has long standing and established relations with its suppliers in the domestic market as well as customers across geographies.

Locational advantage with in-house sorting: The company has locational advantage with its unit located in Kakinada – biggest port and one of the prominent paddy growing belts in Andhra Pradesh. SFPL deal with rice millers across Chhattisgarh, Andhra Pradesh, Telangana, Gujarat, Bihar etc. The company has a in house rice sortex plant where sorting and customizing rice as per buyer's specifications is undertaken. The company has 800 MTPD rice sortex plant which gives a bulk in house procurement and processing advantage. The company markets sortex rice in name "Gold coin, Crown, Pearl and Sarala" in export countries and it is being recognized for premium quality.

Efficient working capital management: SFPL had an operating cycle of around 22 days during FY22 (21 days in FY21). SFPL offers quick payment to suppliers and procures sizeable quantities during the start of the season. Accordingly, SFPL's creditor levels have always been low at 15 days and 14 days as on March 31, 2021 and 2022 respectively. For its exports order, SFPL has payment terms of 15% to 20% cash advance at the time of order confirmation, and the balance before the physical delivery of goods or on 100% advance in case of African countries. Practice of securing advances for export shipments ensures that SFPL's debtors levels net of advances received are negligible even during peak periods of exports. SFPL's working capital management is expected to remain efficient, however, any material changes in the same will be a key monitorable.

Prudent risk management measures to mitigate commodity price risk, forex fluctuations, and counterparty risk: In view of the volatility in the commodity prices owing to the variability in agricultural output as well as the global demand supply scenario, SFPL books order backed sales. It procures rice after booking is confirmed by the buyer against 20%-30% cash advance. Furthermore, SFPL books forward contracts on exports to hedge currency fluctuations. It is not exposed to forex risk as all its foreign transactions are fully hedged. To mitigate the counterparty risk, SFPL books sales transaction against 15% to 20% cash advance at the time of order confirmation, and the balance before the physical delivery of goods or on 100% advance in case of African countries.

Industry outlook- Stable

Despite the production and consumption gains in many of the same countries, global rice trade is only expected to increase slightly to 53.8 million tonnes, which is still lower than the levels seen before India first imposed restrictions on rice exports in 2022. Overall, India will remain a significant force in the global rice market, even with the ongoing export restrictions, and that the world rice outlook is generally positive for the 2024-25 period.

Liquidity: Adequate

The company has a satisfactory liquidity position with adequate cash accruals and no long-term debt repayment obligations. The current ratio stood comfortable and above unity at 1.19x as on March 31, 2023. The company has sufficient gearing headroom to raise additional debt of required, going forward. Moreover, with efficient working capital management, the company is generating positive cash flows from operations and reliance on working capital increased.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Policy in respect of non-cooperation by issuers](#)

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Wholesale Trading](#)

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

Sarala Foods Private Limited (SFPL) was incorporated in 2005 by Mr Vinod Agarwal and is based out of Kakinada (Andhra Pradesh). The company is engaged in the trading of agro food commodities such as sortex rice, cashew and maize. The main operation of business is concerned with trading and export of non-basmati rice. For the last two years company has been majorly concentrating on sortex rice sales – exports. The promoters belong to agricultural family having an agricultural background with vast experience in rice field w.r.t procurements, processing, and supply destinations.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	913.94	984.43
PBILDT	14.63	22.64
PAT	11.94	13.24
Overall gearing (times)	0.85	1.93
Interest coverage (times)	8.76	6.10

A: Audited; 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-Cash Credit		-	-	-	4.50	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-EPC/PSC		-	-	-	13.50	CARE BB; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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-EPC/PSC	LT	-	-	-	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (26-Jul-21) 2)Withdrawn (26-Jul-21)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (26-Jul-21) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (26-Jul-21)
3	Fund-based - LT-Cash Credit	LT	4.50	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (31-Jul-23)	1)CARE BBB-; Stable (03-Jun-22)	-
4	Fund-based - LT-EPC/PSC	LT	13.50	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (31-Jul-23)	1)CARE BBB-; Stable (03-Jun-22)	-

*Issuer did not cooperate; based on best available information.

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-Cash Credit	Simple
2	Fund-based - LT-EPC/PSC	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 for any clarifications.

Contact us

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About us:

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Disclaimer:

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