

## Shri Varalakshmi Sago Foods Private Limited

April 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	55.65 (Enhanced from 46.66)	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	5.00 (Enhanced from 3.15)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to Shri Varalakshmi Sago Foods Private Limited (SVSFPL) derives strength from vast experience of promoters and the company's long track record in the sago industry, established brand presence and long-standing relationship with suppliers and dealers and healthy profitability margins. Ratings further factor in the locational advantage for easy availability of tapioca root, and adequate liquidity position. However, ratings are constrained by moderate capital structure, profit margins susceptible to volatile raw material prices with major dependence only on sago-based products.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improving capital structure with overall gearing below 0.5x.
- Increasing scale of operations above ₹600 crore while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins above 12%.

#### Negative factors

- Large repayment of promoter unsecured loans, leading to deteriorating liquidity profile.
- Stretching collection period, leading to elongating working capital cycle.
- Large debt-funded capex, resulting in deteriorating overall gearing beyond 2.5x.

### Analytical approach: Standalone

#### Outlook: Stable

A stable outlook reflects the company is likely to sustain its financial and operational performance in the medium-term benefiting from the stable demand for sago and pappad and vast experience of promoters in the sago industry.

### Detailed description of key rating drivers:

#### Key strengths

##### Vast experience of promoters and long track record of operations in sago industry

The entity was started by Varadaraja Gounder as a partnership firm in the name of Varalakshmi Company (SVC) in 1974 as a sago manufacturing unit. The firm was later taken over by Sundaresan, SVSFPL's current managing director in 1984. In FY23, the firm was converted to a private limited company and name was changed to Shri Varalakshmi Sago Foods Private Limited (SVSFPL). The promoter, Sundaresan, has been part of the sago industry for the last three decades. He is supported by his son, S Vimalkumar, who is the joint managing director and different functional heads across departmental levels. The promoters' experience is expected to help the company maintain its business risk profile in the medium term.

#### Established brand presence

SVSFPL produces sago sold under its brand 'Varalakshmi', while also producing other modified products such as pappad and fryums under the brand "Trymi". These brands are well established in the target market, which is western and central Indian states. The company has ~45-50 variants across different product categories. Around 70% total sales of sago come from western central India and balance from southern states. The company has over 500 dealers to support its distribution network. It also has direct sales to reputed retailers including Reliance, Metro and Walmart; however, sales contribution from these are small.

#### Locational advantage for easy availability of tapioca root

The company is one of the major organised players in the sago industry and operates from Salem, Tamil Nadu, which is also the top district for sago production. Being near tapioca cultivation areas, SVSFPL has easy access to raw material at competitive prices and lower logistical cost. The firm has collection centres for raw materials all over south India.

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

### Improved operational performance in FY24 and 10mFY25

The company's total operating income (TOI) increased from ₹388.33 crore in FY23 to ₹459.63 crore in FY24, marking an annual growth of 18.36%. This expansion was primarily driven by a 22.65% rise in the sago segment and a significant 38.93% surge in the pappad segment. In 10mFY25, the operating income stood at ₹397.91 crore, indicating a modest annualised growth rate of 3.89%.

### Key weaknesses

#### Moderate capital structure

The capital structure marked by overall gearing continues to remain moderate at 1.95x as on March 31, 2024. As on March 31, 2024, ~72% of total debt is unsecured loans from promoters. Debt coverage indicators stood satisfactory marked by total debt to PBILDT (TD/PBILDT) of 2.55x as on March 31, 2024 (PY: 3.30x). The interest coverage ratio stood comfortable at 11.33x in FY24 (PY: 24.39x).

#### Profit margins susceptible to volatile raw material prices

The primary raw material used in manufacturing sago is tapioca root, which is directly purchased from local suppliers and being an agri crop, prices remain highly volatile throughout the year depending on the harvest. This keeps PBILDT margins highly volatile, as evidenced in the past years in the range of 12-18%. SVSFPL has been focusing on improving its end-product realisations and undertaking other cost rationalisation measures to improve operating margins. SVSFPL purchases tapioca in raw form in the harvest season and processes it to sago and stores it, mitigating the raw material price volatility to a certain extent.

#### Liquidity: Adequate

The company has an adequate liquidity profile marked by cash accruals of ₹42.06 crore in FY24 against low repayment obligations of ₹3.29 crore in FY25. Its unutilised bank lines are adequate to meet its working capital needs over the medium term as there are no major capex planned. The firm procures raw material (Tapioca) from local suppliers in and around Salem, Tamil Nadu on cash and carry basis. Tapioca is harvested from November to March. The tapioca is crushed within 24 hours of harvesting and stored in wet form, resulting in a higher inventory period. The collection from dealers and distributors is done within 20-30 days. The company has a cash balance of ₹0.76 crore as on March 31, 2024 (PY: ₹2.51 crore). The average utilisation of working capital limits stood at 41.92% for the last 12 months ended January 2025.

**Assumptions/Covenants:** Not applicable

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

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Food products	Other food products

SVSFPL (erstwhile Shri Varalakshmi Company) was founded in 1974 by R Varadharaja Gounder and R Lakshmi Ammal and is engaged in manufacturing and selling sago and related products. SVSFPL has its manufacturing facility at Salem and has a tapioca tube crushing capacity of 550 metric tonnes per day and production capacity of 130 metric tonnes per day with fried items capacity of 30 tonnes per day. SVSFPL has wide distribution network of over 400 dealers and most sales are made to central and western India. Currently, V Sunderesan and his son, S Vimalkumar (joint managing director) manage the company's operations. The company sells its products under the main brand "Varalakshmi" and "Try mi" with sub-brands depending on the quality and price range of products. The entity's constitution was converted to private limited in FY23 under its present name.

Brief financials (₹ crore)	FY23 (A)	FY24 (A)	10mFY25 (UA)
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Total operating income	388.33	459.63	397.91
PBILDT	49.36	56.77	74.67
PAT	26.20	26.52	NA
Overall gearing (times)	3.42	1.95	NA
Interest coverage (times)	24.39	11.33	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** CRISIL has conducted the review of the erstwhile firm “Shri Varalakshmi Company” and classified the ratings into “Issuer Not Cooperating” category, based on the best available information vide PR dated June 21, 2024. The reason provided by CRISIL is non-furnishing of information for monitoring of ratings.

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	45.00	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	June 2029	9.83	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	March 2026	0.82	CARE BBB+; Stable
Fund-based - ST-Standby line of credit		-	-	-	5.00	CARE A2

**Annexure-2: Rating history for 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-Term loan	LT	0.82	CARE BBB+; Stable	1)CARE BBB+; Stable (21-Jun-24)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (06-Sep-23)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (15-Mar-23)	1)CARE BBB+; Stable (16-Feb-22)
2	Fund-based - LT-Cash credit	LT	45.00	CARE BBB+; Stable	1)CARE BBB+; Stable (21-Jun-24)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (06-Sep-23)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (15-Mar-23)	1)CARE BBB+; Stable (16-Feb-22)
3	Fund-based - LT-Term loan	LT	9.83	CARE BBB+; Stable	1)CARE BBB+; Stable (21-Jun-24)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (06-Sep-23)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (15-Mar-23)	1)CARE BBB+; Stable (16-Feb-22)
4	Fund-based - ST-Standby line of credit	ST	5.00	CARE A2	1)CARE A2 (21-Jun-24)	1)CARE A4+; ISSUER NOT COOPERATING* (06-Sep-23)	1)CARE A3+; ISSUER NOT COOPERATING* (15-Mar-23)	1)CARE A2 (16-Feb-22)

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

LT: Long term; ST: Short term

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - ST-Standby line of credit	Simple

**Annexure-5: Lender details**

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

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

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