

## Chaman Lal Setia Exports Limited

July 04, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	75.00	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Assigned
<b>Total Facilities</b>	<b>75.00</b> <b>(Rs. Seventy five crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Chaman Lal Setia Exports Limited (CLSE) derives strength from its experienced promoters and management team, long track record of operations, favorable manufacturing location along with established business relationship with customers and suppliers with geographically diversified revenue profile. The ratings further derive strength from its efficient working capital management, healthy profitability margins and comfortable solvency and liquidity position. The ratings are, however, constrained by low brand penetration, susceptibility of margins to fluctuations in raw material prices, foreign exchange rates movements and monsoon dependent operations, fragmented nature of the industry coupled with high level of government regulation.

Going forward, the ability of the company to profitably scale-up its operations and efficiently manage its working capital requirements will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same will also remain a key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Experienced promoter with long track record of operations in the rice industry***

Chaman Lal Setia Exports Limited (CLSE) was incorporated by Mr. Chaman Lal Setia (*Chairman-cum-Managing Director*) and his sons, Mr. Vijay Setia (*Executive Director*) and Mr. Rajeev Setia (*Executive Director*), in Amritsar, Punjab in 1994. Mr. Vijay Setia is the President of All India Rice Exporters Association. Regd. (AIREA), Delhi and looks after the manufacturing, quality control and research & development while Mr. Rajeev Setia looks after the exports, finance, accounts and domestic sales. In the recent past, the company has also seen the introduction of 3<sup>rd</sup> generation promoters- Mr. Sukarn Setia, Mr. Ankit Setia and Mr. Sankesh Setia, as the executive directors of the company. The promoters are assisted by an experienced team of professionals for carrying out the day-to-day operations of the company.

##### ***Favorable manufacturing location***

CLSE's manufacturing units are located in Karnal (Haryana) and Amritsar (Punjab). The company also has a rice grading and sorting facility in Kandla, Gujarat. These areas are a hub for paddy/rice, leading to its easy availability. The company's processing facilities are also at a proximity to the grain market resulting in procurement at competitive rates. The presence of the company in the vicinity to the paddy producing regions gives it an advantage over competitors in terms of easy availability of the raw material as well as favorable pricing terms. The favorable location also puts the company in a position to cut on the freight component of the incoming raw materials.

##### ***Established business relationship with customers and suppliers with diversified revenue profile***

Presence of the company in the rice industry for over three decades and favorable location of the plant in close proximity to paddy growers in Haryana and Punjab has led to development of long term relationships with the suppliers and therefore easy procurement of raw materials. On the customer side, long track record has enabled the company to establish strong business relationships with its clientele in the market, which in turn leads to repeat orders. The company exports to approximately 92 countries which geographically diversifies the revenue profile of the company. In FY18, the company derived ~88% of its total operating income from exports wherein it is mostly engaged in doing business for its customers. In the domestic market, however, majority income is derived from the own brand sales.

##### ***Comfortable financial risk profile***

The company reported total operational income of Rs.748.31 crore in FY18 as against Rs.495.56 crore in FY17, an increase of ~51% primarily on account of higher export income with increase in sales in the form of private labels (*packaging done*

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

*under customers' brand name*). CLSE's profitability margins have remained at a comfortable level in the past with range of 8.30% to 13.50% during the past 4 years (FY15 to FY18). During FY18, the company's PBILDT margin declined by 391 bps (*from 13.50% in FY17 to 9.59% in FY18*) mainly on account of discounts given to new customers added during the year (around 107 new customers added during the year) in order to build relationship. Subsequently, the PAT margin of the company also witnessed a decrease of 220 bps during FY18 (5.57%) as against FY17 (7.77%). However, in spite of a year-on-year decline, the margins continued to remain at a comfortable level. CLSE has a comfortable solvency position marked by overall gearing of 0.39x as on March 31, 2018 (PY: 0.30x). The overall gearing deteriorated marginally on a y-o-y basis mainly on account of higher utilization of working capital limits as on balance sheet date for purchase of paddy. The company has been generating healthy cash accruals during the past thereby making it less reliant on external debt. Majority of the debt is in form of working capital facility owing to the high inventory holding period and unsecured loan from directors. Other solvency and coverage indicators of the company also stood comfortable during FY18 such as Total Debt to GCA of 1.61x (PY: 1.03x) and interest coverage ratio of 9.40x (PY: 13.73x).

#### ***Efficient working capital management leading to comfortable liquidity position***

Owing to the seasonality of rice harvest (October to December), the company has to maintain suitable raw material inventory to ensure uninterrupted production throughout the year; nevertheless, the company had a comfortable working capital utilization of ~30% during the last 12 months ended May-2018. The working capital funding is supported through healthy internal accruals. The same led to healthy liquidity position of CLSE as indicated by the current ratio of 2.88x, current investments of Rs.12.75 crore and cash and bank balance of Rs.11.41 crore as on March 31, 2018.

#### **Key Rating Weaknesses**

##### ***Low brand penetration***

The company primarily sells rice in the form of private labels (*packaging done under customers' brand name*) with sales constituting ~77% of the total income in FY18. The remaining sales are under its own brands, 'Maharani', 'Begum' and 'Mithas'. The limited brand penetration limits the ability to charge a high margin.

##### ***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 materials 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. 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 company is exposed to the risk of adverse price movement resulting in lower realization than expected.

##### ***Foreign exchange risk***

CLSE earned approximately 88% of its total operating income from exports, while the company did not have any major imports other than capital goods. Due to absence of any natural hedge, the profitability margins of the company are susceptible to any adverse fluctuations in the foreign currency rates. To safeguard itself to some extent, the company enters into derivative contracts to hedge its forex exposure, however, the complete exposure of the company is not hedged and it is exposed to any adverse fluctuation in the foreign exchange prices for the unhedged portion. On an average, the company hedges 20-25% of its forex exposure.

##### ***Vulnerability of international trade to changes in government policies***

The raw material (paddy) prices are regulated by the government to safeguard the interest of farmers which limits the bargaining power of rice mills over the farmers. Given the fact that prices for finished products is market determined while the cost of raw material is fixed by GoI through the MSP mechanism, the profitability margins remain vulnerable, especially in times of high paddy cultivation.

##### ***Fragmented nature of industry***

The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)  
[Financial ratios – Non-Financial Sector](#)

**About the Company**

Promoted by Mr. Chaman Lal Setia and his sons, Mr. Vijay Setia and Mr. Rajeev Setia, CLSE was set up as a partnership firm in 1983, in Amritsar, Punjab. The firm was reconstituted as a public limited company in 1994, and was listed on the Bombay Stock Exchange in 1995. CLSE is engaged in the business of milling and processing of basmati rice. The company has an installed manufacturing capacity of 14 metric tonnes per hour with 12 metric tonnes per hour in Karnal (Haryana) and 2 metric tonnes per hour in Amritsar (Punjab). The company also has a rice grading and sorting facility in Kandla, Gujarat.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	495.56	748.31
PBILDT	66.90	71.74
PAT	38.51	41.65
Overall gearing (times)	0.30	0.39
Interest coverage (times)	13.73	9.40

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	75.00	CARE A-; Stable / CARE A2+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	75.00	CARE A-; Stable / CARE A2+	-	-	-	-

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