Chaman Lal Setia Exports Limited

August 14, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Ratings Action**
Long term/ Short term Bank Facilities	100.00 (enhanced from Rs. 75 crore)	**CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ Single A Two Plus)**	**Reaffirmed**
Total Facilities	**100.00 (Rupees One hundred crore only)**		

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) continues to take into account 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 comfortable solvency and liquidity position.

The ratings are, however, constrained by low brand penetration, susceptibility of margins to fluctuations in raw material prices and foreign exchange rates movements, 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 maintain its comfortable solvency and liquidity position will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same impacting the credit profile 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 3rd 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 unit is located at Karnal, Haryana. The company also has a rice grading and sorting facilities in Amritsar (Punjab) and Kandla (Gujarat). These areas are a hub for paddy/rice, leading to its easy availability of raw material. The company's processing facility is 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 80 countries which geographically diversifies the revenue profile of the company. In FY19, the company derived ~89% of its total operating income from exports (~88% in FY18) 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 operating income of the company increased marginally (by ~2%) in FY19. This was on account of improved sales realization achieved by the company, though the quantity sold declined in FY19 due to competitive nature of industry. The realizations improved on account of increase in paddy costs which were passed on to the customers as well as depreciation of the domestic currency during the year (~89% of the income derived from exports). The PBILDT margins of the company remained at a comfortable level of 8.45% in FY19. The same, however, declined from 9.42%

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

in FY18 on account of loss incurred by the company due to adverse foreign exchange fluctuations and uncertainty arising due to looming sanctions on Iran (in Q4FY19) which impacted the international prices of rice (even though CLSE does not export to Iran); which led to company exporting at low margins during the quarter to clear its inventory. Subsequently, the PAT margin of the company also declined in FY19 on a y-o-y basis (from 5.58% in FY18 to 4.56% in FY19).
The overall solvency position of the company also remained comfortable as marked by its overall gearing and total debt to GCA ratios of 0.43x and 2.49x, respectively as on March 31, 2019 (PY: 0.46x and 1.94x, respectively). The same, however, marginally deteriorated on a y-o-y basis on account of increase in unsecured loans infused by the promoters and increased working capital borrowings outstanding at the end of the year. The interest coverage ratio also stood comfortable in FY19.

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 ~80% of the total income in FY19 (~77% in FY17). The remaining sales are under its own brands; viz., '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 89% 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.

Vulnerability of international trade to changes in government policies: The Government of India (GoI), every year decides a minimum support price (MSP) to be paid to paddy farmers (non-basmati) which are somewhat linked to the prices of basmati rice as well. The profitability margins of the company, thus remain vulnerable, especially in times of high paddy cultivation. The rice processing sector as a whole is vastly regulated by the GoI and any adverse changes in the regulatory framework could negatively impact rice processing units like CLSE. Also, the company remains susceptible to changes in import policies of various countries.

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

Liquidity position
Strong liquidity position: Liquidity is marked by strong accruals against negligible repayment obligations (of ~Rs.0.51 Cr. in FY20) and liquid investments and cash balances to the tune of Rs.7.28 crore, as on March 31, 2019. Cash balance & liquid investments stood at ~Rs.99.33 Cr., as on July 21, 2019. With overall gearing ratio of 0.43 times, as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for any future capex. 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 average working capital utilization of ~30% during the last 12 months ended June-2019 which are more than adequate to meet its incremental working capital needs over the next one year.

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 in Karnal (Haryana). The company also has a rice grading and sorting facilities in Amritsar (Punjab) and Kandla (Gujarat).

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)*
Total operating income	746.95	766.40
PBILDT	70.38	64.76
PAT	41.65	34.96
Overall gearing (times)	0.46	0.43
Interest coverage (times)	9.22	8.67

A: Audited
**Abridged*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	100.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	100.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Jul-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities- NA

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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