Chaman Lal Setia Exports Limited

October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term/ Short term Bank Facilities	-	-	Reaffirmed at CARE A-; Stable/CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus] and Withdrawn
Total Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A-; Stable/CARE A2+' [Single A Minus; Outlook: Stable/ A Two Plus] assigned to the bank facilities of Chaman Lal Setia Exports Limited (CLSE) with immediate effect. The above action has been taken at the request of CLSE and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

The rating assigned to the bank facilities of CLSE continues to derive strength from the experienced promoters and management team, long track record of operations, favorable manufacturing location along with established business relationship with customers and suppliers, and geographically diversified revenue profile. The ratings further derive strength from its comfortable solvency 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.

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 in Amritsar, Punjab in 1994 by Mr. Chaman Lal Setia and his sons, Mr. Vijay Setia who is the currently the Chairman-cum-Managing Director and Mr. Rajeev Setia who is the currently the Joint Managing Director-cum-CFO. 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-today 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 FY20, the company derived ~88% of its total operating income from exports (~89% in FY19) 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 ~4%) in FY20. The PBILDT margins of the company improved on a year-on-year (y-o-y) basis to 10.19% in FY20 from 8.45% in FY19. Subsequently, the PAT margins of the company improved to 6.56% in FY20 from 4.49% in FY19. The GCA of the company, in absolute value terms, increased by ~47% in FY20, on a y-o-y basis to Rs. 57.43 cr. from Rs. 39.09 cr. in FY19.

The long-term debt-to-equity ratio and overall gearing ratio of the company stood comfortable and improved on a y-o-y basis to 0.17x and 0.25x, respectively, as on March 31, 2020 from 0.20x and 0.43x, respectively, as on March 31, 2019. The total

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

debt to GCA and interest coverage ratios of the company stood comfortable and improved to 1.18x, as on March 31, 2020 and 12.15x in FY20 respectively from 2.49x, as on March 31, 2019 and 8.67x in FY19 respectively.
In Q1FY21 (UA), the total income of the company increased by 18% on a y-o-y basis to Rs. 243.92 cr. from Rs. 206.98 cr. in Q1FY20 (UA). Further, the PBILDT margins of the company stood comfortable at 14.74% in Q1FY21 (UA) and improved on a y-o-y basis from 6.36% in Q1FY20 (UA). Consequently, the PAT margins of the company improved on a y-o-y basis The interest coverage ratio stood comfortable at 26.25x in Q1FY21 and improved on a y-o-y basis from 6.24x in Q1FY20. CLSE did not avail the moratorium from the bank in light of Covid19, as per the extant Reserve bank of India (RBI) guidelines, for debt obligations due in March-2020 to August-2020 period.

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.

Monsoon dependent operations with susceptibility to fluctuation in raw material prices and foreign exchange risk: 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.
CLSE earned approximately 88% of its total operating income from exports in FY20 (PY: ~89%), 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.

Fragmented nature of industry with vulnerability of international trade to changes in government policies: 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.
Further, 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.

Analytical approach: Standalone

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
CARE's methodology for Manufacturing Companies
CARE's default recognition policy
Financial ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
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 was promoted by Mr. Chaman Lal Setia. Currently the operations are undertaken by his sons, Mr. Vijay Setia (Chairman-cum-Managing Director) and Mr. Rajeev Setia (Joint Managing Director-cum- CFO). 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) as on March 31, 2020. The company also has a rice grading and sorting facilities in Amritsar (Punjab) and Kandla (Gujarat).

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	766.05	799.84
PBILDT	64.73	81.49
PAT	34.41	52.47
Overall gearing (times)	0.43	0.25
Interest coverage (times)	8.67	12.15

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

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	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	1)CARE A-; Stable / CARE A2+ (14-Aug-19)	1)CARE A-; Stable / CARE A2+ (04-Jul-18)	-

Annexure-3: Detailed explanation of covenants of the rated facilities- Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Working Capital Limits	Simple

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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