

Santuka Foods Private Limited
 February 01, 2019

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
1.	Long-term Bank Facilities	3.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
2.	Short-term Bank Facilities	3.50	CARE A4 (A Four)	Assigned
Total Facilities		6.50 (Rupees Six Crore and Fifty Lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Santuka Foods Pvt. Ltd are constrained by its small scale of operations along with low profit margins, regulation by government in terms of MSP, leveraged capital structure and moderate debt coverage indicators, seasonal nature of availability of raw material resulting in high working capital intensity and exposure to vagaries of nature and fragmented and competitive nature of industry. However, the aforesaid constraints are partially offset by its experienced promoter and long track record of operations, satisfactory demand outlook of the products and proximity to raw material sources. The ability of the company to grow its scale of operations and improve its profit margins and ability to manage working capital effectively would be the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weaknesses*****Small scale of operation along with low profit margins***

Santuka Foods Pvt. Ltd. is small player vis-à-vis other players in the rice milling and processing industry marked by its total operating income of Rs.10.17 crore (Rs.4.09 crore in FY17) with a PAT of Rs.0.16 crore (Rs.0.08 crore in FY17) in FY18. Furthermore, the total operating income witnessed year on year growth marked by Compounded Annual Growth Rate (CAGR) of 71.94% during last three years (FY16-FY18). Moreover, the company has reported turnover of Rs.6.67 crore during 8MFY19. The profitability margins of the company remained low marked by PBILDT margin of 7.57% (17.05% in FY17) and PAT margin of 1.53% (1.98% in FY17) in FY18. The total capital employed was low at Rs.5.59 crore as on March 31, 2018. The small size restricts the financial flexibility of the company in times of stress.

Regulation by government in terms of MSP

The Government of India (GOI), every year decides a minimum support price (MSP – to be paid to paddy growers) for paddy which limits the bargaining power of rice millers over the farmers. The MSP of paddy has increased during the crop year 2018-19 to Rs.1750/quintal (as suggested by the Commission for Agricultural Costs and Prices, the apex body to advice on MSP to the government) from Rs.1550/quintal in crop year 2017-18. Given the market determined prices for finished product vis-à-vis fixed acquisition cost for raw material, the profitability margins are highly vulnerable. Such a situation does not augur well for the entity, especially in times of high paddy cultivation.

Leveraged capital structure and moderate debt coverage indicators

The capital structure of the company remained leveraged marked by overall gearing ratios of 2.42x as on March 31, 2018. Moreover, the debt coverage indicators also remained moderate as marked by total debt to GCA ratio of 9.19x. Interest coverage ratio remained moderate at 2.63x in FY18 on account of increase in PBILDT level.

Seasonal nature of availability of raw material resulting in working capital intensity and exposure to vagaries of nature

Agro product processing business is working capital intensive as the millers have to stock paddy by the end of each season till the next season as the price and quality of agro products are better during the harvesting season. Accordingly, the working capital intensity remains high impacting company's profitability. Moreover, the average fund based working capital utilisation remained at around 67% during the last 12 months ended on November, 2018. Also, agro products cultivation is highly dependent on monsoons, thus exposing the fate of the company's operation to vagaries of nature.

Fragmented and competitive nature of the industry

SFPL's plant is located in Jajpur, Odisha, which is in close proximity to hubs for paddy/rice cultivating region. Owing to the advantage of close proximity to raw material sources, large number of small units is engaged in milling and processing of

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

rice in the region. This has resulted in intense competition which is also fuelled by low entry barriers. Given that the processing activity does not involve much of technical expertise or high investment, the entry barriers are low.

Key Rating Strengths

Experienced Promoters and long track record of operations

The key promoter, Mr. Gajendra Kumar Santuka (aged about 55 years) has around three decades of experience in rice milling industry, looks after the overall management of the company. He is supported by other director, Mr. Rahul Santuka (aged about 32 years) having an experience of around a decade in rice milling industry. Both of them look after the overall management of the company with adequate support from a team of experienced personnel. More than a decade of presence of the company, reflecting long track record in the business of rice milling activities.

Satisfactory demand outlook of the products and proximity to raw material sources

SFPL's plant is located at Jajpur, which is close to the vicinity to a major rice growing area of Odisha. The entire raw material requirement is met locally from local agents which helps the company to save substantial amount of transportation cost and also procure raw materials at effective price. Further, rice being a staple food grain with India's position as one of the largest producer and consumer, demand prospects for the industry is expected to remain good in near to medium term.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in December 2008, Santuka Foods Pvt. Ltd (SFPL) is engaged in rice milling activities with its manufacturing facilities located at Plot no – 184/194, Harijan Sapatna, P.O.- Shakuntalapur, Jajpur, Odisha, 754296 with aggregate installed capacity of 25000 Ton per Annum (TPA). The company was promoted by Mr. Gajendra Kumar Santuka and Mr. Mr. Rahul Santuka. The entity is also doing custom milling for Odisha State Civil Supplies Corporation Limited (OSCSCL). Mr. Gajendra Kumar Santuka has experience around three decades in rice milling industry, looks after the overall management of the company. He is supported by other director Mr. Rahul Santuka who also has experience of around a decade in this line of business. The promoters are supported by a team of experienced professionals.

Liquidity

The liquidity position of the company remained moderately marked by the cash and bank balance was at Rs.0.06 crore as on March 31, 2018. The Gross cash accruals also remained low at Rs.0.43 crore in FY18. Current ratio and liquid ratio was at 0.90x and 0.39x, respectively, as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4.09	10.17
PBILDT	0.70	0.77
PAT	0.08	0.16
Overall gearing (times)	1.85	2.42
Interest coverage (times)	2.54	2.63

A: Audited.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Analyst Contact:

Name: Soumen Das

Tel: 033-40581907

Mobile: +91- 9830587029

Email: soumen.das@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Cash Credit	-	-	-	3.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A4

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	3.00	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A4	-	-	-	-

CONTACT**Head Office Mumbai****Ms. MeenalSikchi**

Cell: + 9198190 09839

E-mail: meenal.sikchi@careratings.com**Mr. AnkurSachdeva**

Cell: + 9198196 98985

E-mail: ankur.sachdeva@careratings.com**Ms.RashmiNarvankar**

Cell: + 9199675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Saikat Roy**

Cell: + 9198209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**JAIPUR****Mr. Nikhil Soni**304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, NearCollectorateCircle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**CHANDIGARH****Mr. AnandJha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000/01

Email: anand.jha@careratings.com**KOLKATA****Ms. PritiAgarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**PUNE****Mr.Pratim Banerjee**9th Floor, Pride KumarSenate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
ShivajiNagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691