

Santuka Foods Private Limited

February 28, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	3.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; Issuer Not Cooperating*)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable); Issuer Not Cooperating based on best available information
Short-term Bank Facilities	3.50	CARE A4; ISSUER NOT COOPERATING* (A Four; Issuer Not Cooperating*)	Issuer Not Cooperating based on best available information
Total	6.50 (Rupees Six Crore And Fifty Lakh only)		

*Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Santuka Foods Private Limited to monitor the rating vide letters/e-mails communications dated 01.11.2019, 26.11.2019, 20.02.2020 and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at fair ratings. The Santuka Foods Private Limited bank facilities will now be denoted as **CARE B; Stable/CARE A4; ISSUER NOT COOPERATING***. However, banker could not be contacted.

Users of these rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

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.9.48 crore (Rs.10.17 crore in FY18) with a PAT of Rs.0.12 crore (Rs.0.16 crore in FY18) in FY19. 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.5.75 crore as on March 31, 2019. 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 2.27x as on March 31, 2019. Moreover, the debt coverage indicators also remained moderate as marked by total debt to GCA ratio of 9.80x. Interest coverage ratio remained moderate at 2.03x in FY19 on account of increase in PBILDT level.

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

*Issuer did not cooperate; based on best available information

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. 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 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

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch'](#)

[Criteria for Short Term Instruments](#)

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

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

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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	10.17	9.48
PBILDT	0.77	0.89
PAT	0.16	0.12
Overall gearing (times)	2.42	2.27
Interest coverage (times)	2.63	2.03

A: Audited,

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable.

Rating History (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-Cash Credit	-	-	-	3.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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-Cash Credit	LT	3.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information	-	1)CARE B+; Stable (01-Feb-19)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (01-Feb-19)	-	-

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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About CARE Ratings:

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