Press Release

Sonasati Organics Pvt Ltd

December 02, 2020

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	56.85 (Increased from Rs.46.87 crore)	IVR BBB- [CE]; Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook) *	**Revised from IVR BB+; Stable (IVR Double B Plus with Stable Outlook)***
3	Short Term Bank Facilities	4.90	IVR A3 [CE] (IVR A Three [Credit Enhancement])	**Revised from IVR A4+ (IVR A Four Plus)**
	Total	**61.75 (Rs Sixty-One crore and Seventy-Five lakh only)**		

CE Rating based on Corporate Guarantee from K. D. Liquor & Fertilizer Pvt. Ltd

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the above bank facilities of Sonasati Organics Pvt Ltd (SOPL) derive strength from unconditional and irrevocable corporate guarantee (several and joint with other group companies) extended by K. D. Liquor & Fertilizer Private Limited (KDL) to the bank facilities of SOPL. This corporate guarantee results in an enhancement in the rating of the said instrument to **IVR BBB- (CE); Stable/IVR A3 (CE) (IVR Triple B Minus [Credit Enhancement] with Stable Outlook/ IVR A Three [Credit Enhancement])** against the **unsupported rating of IVR BB+; Stable** (IVR Double B Plus with Stable Outlook).

Further, the ratings also continue to derive strength from its experienced promoters, reputed Clientele, support from group companies through unsecured loans and corporate guarantee, completion of capex during FY20 to drive earnings and policy initiatives by the Government. However, these rating strengths are partially offset by its small scale of operation with thin profitability albeit improvement in FY20, susceptibility of operating margin to volatile raw material prices, exposure to government regulations, moderate credit risk profile and working capital intensive nature of operations.

Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Sustenance of the capital structure with TOL/TNW to remain below 3x
- Improvement in working capital cycle leading to improvement in liquidity on a sustained basis and reduction in cash credit utilisation
- Improvement in the credit profile of the corporate guarantors

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 2x
- Withdrawal of subordinated unsecured loans amounting to Rs.20 crore from the business and/or moderation in the capital structure
- Deterioration in working capital management affecting the liquidity.
- Moderation in the credit profile of the corporate guarantors

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

  The promoters of the company, Mr. Rakesh Kumar, Mr. Manish Jaiswal and Mr. Devendra Kumar Singh have been associated with the company for more than half a decade. The promoters have ensured a successful transition from the manufacturing of extra neutral alcohol and rectified spirit to ethanol production now. They are well supported by a team of experienced personnel. Further, the promoters have supported the business as and when required by arranging unsecured loans. During FY20, the promoters have infused additional funds through other group companies in the form of unsecured loans aggregating to Rs.15.30 crore to support the business operations.

- **Reputed Clientele**

  SSOPL only caters to the requirements of state-owned petroleum companies, which include HPCL, BPCL and IOCL. Orders are secured through bidding for tenders floated by these OMC’s. The tender is usually for a period of one-year post which the company again participates via a fresh tender.

- **Support from group companies through unsecured loans and corporate guarantee** KDLF, along with other group companies has a joint and several corporate guarantee for the bank facilities availed by SSOPL. Further, KDLF alone has extended unsecured loans amounting to Rs.20.62 crore to support the operations of the company during FY20. Besides, another corporate guarantor Westwell Iron Steel Pvt Ltd (Rated: IVR BBB-; Negative/IVR A3) extended unsecured loans amounting to Rs.5.92 crore during FY20 to SSOPL. Going forward, Infomerics believes SSOPL will continue to receive need based financial support from its financially strong corporate guarantors, in case of pressure on cash flows.
- **Completion of capex during FY20 to drive earnings**
  The company gradually converted its ENA plant for manufacturing of Ethanol in view of high opportunities and demand of the same. The capex plan of the company was completed in June, 2019. With enhanced Ethanol capacity (from 13500 KL to 22500KL per annum), Infomerics expects growth in its revenue in near term in view of high demand of Ethanol among oil manufacturing companies.
- **Policy initiatives by the Government**
  In January 2013, the Union government launched the Ethanol Blended Petrol (EBP) programme, which made it mandatory for oil companies to sell petrol blended with at least 5 per cent of ethanol. The EBP programme is presently being implemented in a total of 13 states with blending level of about 2% against a mandatory target of 5%. In a later decision, the government has set a target of 10 per cent ethanol blending in petrol by 2022. In lieu of the above developments and also given that the government currently does not allow import of ethanol for fuel blending, the outlook appears bright for this industry.

Key Rating Weaknesses

- **Small scale of operation with thin profitability albeit improvement in FY20**

The total income of the company witnessed y-o-y growth of ~14% in FY20 on the back of higher ANSPR coupled with increase in demand on Government policy for using Ethanol, however notwithstanding the growth, the scale of operations of the company continued to remain small with a total income of Rs.52.66 crore in FY20. The small scale of operations restricts the financial flexibility of the company in times of stress. Further, despite its strong EBITDA margin over the years the PAT margin continued to remain thin owing to its high capital charges (Depreciation and Interest) arising out of the capex implemented by the company for setting up the liquor facility initially and followed by an expansion project for manufacturing of Ethanol ended in June 2019. With marginal increase in PAT margin and absolute PAT in FY20, the gross cash accruals have also improved from Rs.8.17 crore in FY19 to Rs.8.92 crore in FY20. In H1FY21, the company has achieved a revenue of Rs.36.47 crore. Infomerics expects the scale of operations of company will continue to remain small in the near term.

- **Susceptibility of operating margin to volatile raw material prices**

The key raw material for ethanol manufacturing is molasses. Molasses availability and prices both are volatile in nature due to presence of agro climatic risk and cyclicality in the sugar industry and

- **Exposure to government regulations**

Ethanol production and demand from OMC's are highly dependent on government regulations.

- **Moderate credit risk profile**

SSOPL has a moderate credit profile marked by higher dependence on long term debt with overall gearing at 1.16x and Long-term debt to equity ratio at 0.99x as on March 31, 2020. The net worth of the company includes subordinated unsecured loans amounting to Rs.20 crore. Total indebtedness of the company remained satisfactory at 1.71x as on March 31,2020. The debt protection metrics of the company marked by interest coverage ratio and Total debt to EBITDA remained moderate at 2.19x and 4.97x respective in FY20 with marginal moderation from 2.30x and 4.50x respectively in FY19 due to rise in total debt attributable to unsecured loans infused by the other group companies to support the business operations. However, the debt service coverage ratio of the company continued to remain weak in FY20 and the company's debt servicing obligations was supported through infusion of unsecured loans. Moreover, presence of high near-term debt repayment weakened the credit risk profile of the company to an extent.

- **Working capital intensive nature of operations**

The operations of the company remained working capital intensive due to its high inventory holding requirements owing to exposure of its raw materials (mainly Molasses) to agro climatic risk. Consequently, the operating cycle of the company remained high. Further, during FY20 reduction in creditor level also resulted in further elongation in the operating cycle. In order to fund its working capital requirements, the company is largely dependent on its working capital borrowing limits however, the same remained satisfactory at ~80% during the past 12 months ended October,2020.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of K. D. Liquor & Fertilizer Pvt. Ltd (KDLF, rated: IVR BBB-/Stable) provider of corporate guarantee (Joint with other group companies and several) to the bank facilities SOPL.

Reason for change in approach: Earlier Infomerics has rated SOPL on a standalone basis, however, we have now received a request from the company to evaluate its credit profile based on the Joint and several corporate guarantee provided by K. D. Liquor & Fertilizer Private Ltd.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its expected rise in gross cash accruals and higher cushion in its bank borrowings. SSOPL has earned a gross cash accrual of Rs.8.92 crore in FY20 and is expected to earn a gross cash accrual in the range of ~Rs.13-21 crore as against debt repayment of in the range of ~Rs.5-17 crore during FY21-23. Further, strong financial profile of its group companies and past instances of need based financial support from them imparts comfort. However, any unplanned capex may affect the liquidity position of the company. Further, the average cash credit utilisation of the company remained satisfactory at ~80% during the past 12 months ended October 2020 indicating an adequate liquidity cushion.

About the company

Sona Sati Organics Private Limited (SSOPL), incorporated in 2004 was earlier into manufacturing of extra neutral alcohol and rectified spirit with its unit located in Bihar. With the Government of Bihar imposing a ban on liquor, SSOPL ventured into manufacturing of ethanol to cater to the requirements of petroleum companies. The commercial operation of the ethanol plant commenced from June 16, 2016. Thereafter the promoters enhanced the production capacity of the company and the capex concluded in June,2019. Presently, the company is operating with a capacity of 75 KLPD. Mr Rakesh Kumar, Mr Manish Kumar Jaiswal, Mr Manoj Kumar, Mr Ramashankar Prasad and Mr Devendra Prasad Singh are the promoter/directors of the company.

Financials of SOPL (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Income	46.13	52.66
EBITDA	13.60	13.30
PAT	0.16	0.35
Total Debt	61.21	66.07
Tangible Net worth	36.46	36.81
EBITDA Margin (%)	29.95	26.23
PAT Margin (%)	0.35	0.67
Overall Gearing Ratio (x)	1.08	1.16

*Classification as per Infomerics' standards.

About K. D. Liquor & Fertilizer Pvt. Ltd

Incorporated in 1995 by Mr. Pradyut Sinha and Mr. Kamal Pandey of West Bengal (promoter directors), K.D. Liquor & Fertilizer Pvt. Ltd. (KDL) is engaged in country liquor bottling in the state of West Bengal. The company has its bottling plant based at Nadia District of West Bengal with an annual capacity of 10,36,80,000 bottles. KDL sales its products under the brands named “Bengal Tiger” and ‘Uddan’ which are well established in Nadia and Burdwan district and have spread to Hoogly, Haldia, Dankuni regions through tie-up manufacturing units. This apart, the company is empanelled with National Highway Authority for collection toll and operation of toll plaza. During FY20, the company obtain a toll collection project for three months at NH-23 Sosokhurd Fee Plaza in Jharkhand. However, the same was terminated in the month of July 2019.

Mr. Panday looks after the marketing and expansion, Mr. Karan Jaiswal is overlooking the finance function and operations, while Mr. Sinha is looking after the regular affairs of the company.

Financials of KDL (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	159.06	173.08
EBITDA	9.20	12.76
PAT	6.18	6.57
Total Debt	25.05	27.45
Tangible Net worth	38.44	45.02
EBITDA Margin (%)	5.78	7.37
PAT Margin (%)	3.84	3.78
Overall Gearing Ratio (x)	0.65	0.61

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Issuer Not Cooperating from India Ratings as per PR dated November 13, 2018.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	10.00	IVR BBB- (CE) /Stable*	IVR BB+ /Stable (May 04, 2020)	-	IVR BB/ Stable (Mar 11, 2019)
2.	Term Loan	Long Term	46.85	IVR BBB- (CE) /Stable*	IVR BB+ /Stable (May 04, 2020)	-	IVR BB /Stable (Mar 11, 2019)
3.	Bank Guarantee	Short Term	4.00	IVR A3 (CE)*	IVR A4+ (May 04, 2020)	-	IVR A4(Mar 11, 2019)
4.	WCDL	Short Term	0.90	IVR A3 (CE)*	IVR A4+ (May 04, 2020)	-	IVR A4(Mar 11, 2019)

* *Based on Corporate Guarantee from K. D. Liquor & Fertilizer Pvt. Ltd*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits - Cash Credit	-	-	-	10.00	IVR BBB-(CE) /Stable*
Long Term Fund Based Limits – Term Loan	-	-	March 2027	46.85	IVR BBB-(CE) /Stable*
Short Term Non Fund Based Limits- Bank Guarantee	-	-	-	4.00	IVR A3 (CE)*
Short Term Fund Based Limits- WCDL	-	-	-	0.90	IVR A3 (CE)*

** Based on Corporate Guarantee from K. D. Liquor & Fertilizer Pvt. Ltd*