

Rating Advisory

October 26, 2018 | Mumbai

Chaman Lal Setia Exports Limited

Advisory as on October 26, 2018

This rating advisory is provided in relation to the rating of Chaman Lal Setia Exports Limited

The key rating sensitivity factors for the rating include:

- Scale of operations
- Profitability levels
- Efficiency of working capital management
- Capital expenditure (capex) plans and their funding mix

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Chaman Lal Setia Exports Limited (CLSE) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If CLSE continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company:

CLSE was set up as a partnership firm in 1983 by Mr Chamanlal Setia and his sons, Mr Vijay Setia and Mr Rajeev Setia, in Amritsar, Punjab. The firm was reconstituted as a public limited company in 1994, and was listed on the Bombay Stock Exchange in 1995. It undertakes milling, sorting, and packaging of rice for the domestic and global markets.

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Rating Rationale

December 21, 2017 | Mumbai

Chaman Lal Setia Exports Limited

Ratings upgraded to 'CRISIL A-/Stable/CRISIL A2+'

Rating Action

Total Bank Loan Facilities Rated	Rs.100 Crore
Long Term Rating	CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')
Short Term Rating	CRISIL A2+ (Upgraded from 'CRISIL A2')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the bank loan facilities of Chaman Lal Setia Exports Limited (CLSE) to '**CRISIL A-/Stable/CRISIL A2+**' from 'CRISIL BBB+/Positive/CRISIL A2'.

The upgrade reflects improvement in the business risk profile, while sustaining its conservative financial and liquidity profile. Company has reported healthy compound annual growth rate of 15.3% in sales volume during the three fiscals through 2017, while sustaining healthy operating profitability and working capital cycle. In the first half of fiscal 2018, operating income grew by 43.9% fiscal-on-fiscal to Rs 342 crore and healthy growth is expected over medium term, backed by an established relationship with customers across more than 60 countries. Furthermore, owing to a policy of keeping order-backed inventory, the working capital cycle has remained moderate, as reflected in gross current assets (GCAs) of 95'140 days in the three fiscals ended March 31, 2017. Consequently, despite a challenging market scenario for basmati rice exporters, profitability has remained above average.

The upgrade also reflects healthy liquidity, reflected in low average bank limit utilisation at 8% during the 12 months through September 2017. Furthermore, high net cash accrual, expected at Rs 34-35 crore per fiscal against no long-term debt repayment obligation or major capital expenditure (capex), should keep liquidity comfortable over medium term. Unencumbered fixed deposits of Rs. 47.01 crore, as on March 31, 2017, provide a cushion to liquidity, and is used partially for rice procurement during the peak season.

Analytical Approach

CRISIL has considered unsecured loans of Rs. 16.99 crore from the promoters as 75% equity and 25% debt. These loans are expected to stay invested in the business and interest on them is completed ploughed back.

Key Rating Drivers & Detailed Description

Strengths

* **Healthy financial risk profile:** The adjusted networth was high at Rs 157.89 crore and the total outside liabilities to adjusted networth ratio low at 0.34 time, as on March 31, 2017. The adjusted interest coverage ratio was also strong at 13.59 times for fiscal 2017. The ratio is expected to remain at a similar level owing to low reliance on external debt and healthy cash accrual, over the medium term.

* **Established market position:** The company has a diversified customer base spread across more than 60 countries with the top 10 customers contributing only 39% of sales in fiscal 2017. The supplier base is also diversified across a number of millers in Punjab and Haryana with the top 10 suppliers contributing only 15% of total purchases in fiscal 2017.

* **Prudent working capital management:** Gross current assets were 139 days, driven by low debtors of 25 days and order-backed inventory of 90 days, as on March 31, 2017 and expected at similar level over the medium term.

Weakness

* **High susceptibility to fluctuation in raw material prices and regulatory changes:** Raw material cost is 75-80% of sales; hence, any fluctuation in the prices can directly impact operating profitability. Input prices depend on availability, which in turn depends on the total agricultural output. Government regulations pertaining to minimum support price and procurement policies also impact raw material availability. The operating profitability margin was 7.5-13.2% in the five fiscals through 2017, and is expected to remain susceptible to raw material price fluctuation and regulatory changes.

* **Low brand penetration:** Own brands-Maharani, Begum, and Mithas-contribute only 10-15% of the revenue. Most of the sales are under customer brands or in bulk. The limited brand penetration limits the ability charge a high margin in comparison with industry players such as KRBL Ltd.

Outlook: Stable

CRISIL believes CLSE will maintain its established market position and healthy financial risk profile, over the medium term. The outlook may be revised to 'Positive' in case of a significant increase in the scale of operations through geographical diversification and higher penetration of branded sales, while profitability and working capital cycle are maintained. The outlook may be revised to Negative in case of lower-than-expected cash accrual, a stretched working capital cycle, or any major capital expenditure, adversely impacting the financial risk profile.

About the Company

CLSE was set up as a partnership firm in 1983 by Mr Chamanlal Setia and his sons, Mr Vijay Setia and Mr Rajeev Setia, in Amritsar, Punjab. The firm was reconstituted as a public limited company in 1994, and was listed on the Bombay Stock Exchange in 1995. It undertakes milling, sorting, and packaging of rice for the domestic and global markets.

Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs. Cr.	493.50	482.77
Profit After Tax (PAT)	Rs. Cr.	64.95	61.07
PAT Margins	%	7.6	6.8
Adjusted debt/adjusted net worth	Times	0.19	0.09
Interest coverage*	Times	13.82	17.96

*Adjusted

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	2.0	CRISIL A-/Stable
NA	Packing Credit	NA	NA	NA	76.5	CRISIL A2+
NA	Foreign Bill Discounting	NA	NA	NA	15.5	CRISIL A2+
NA	Letter of Credit	NA	NA	NA	6.0	CRISIL A2+

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	94	CRISIL A-/Stable/ CRISIL A2+		No Rating Change	17-10-16	CRISIL BBB+/Positive/ CRISIL A2	23-06-15	CRISIL BBB+/Stable/ CRISIL A2	04-03-14	CRISIL BBB/Stable/ CRISIL A3+	CRISIL BBB-/Stable
Non Fund-based Bank Facilities	LT/ST	6	CRISIL A2+		No Rating Change		No Rating Change	23-06-15	CRISIL A2	04-03-14	CRISIL A3+	CRISIL A3

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	2	CRISIL A-/Stable	Cash Credit	2	CRISIL BBB+/Positive
Foreign Bill Discounting	15.5	CRISIL A2+	Foreign Bill Discounting	15.5	CRISIL A2
Letter of Credit	6	CRISIL A2+	Letter of Credit	6	CRISIL A2
Packing Credit	76.5	CRISIL A2+	Packing Credit	76.5	CRISIL A2
Total	100	--	Total	100	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Fast Moving Consumer Goods Industry](#)

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