

December 01, 2022

## Shyam Industries: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund-based Working Capital Limits <sup>^</sup>	-	27.00	[ICRA]BB+(Stable); reaffirmed
Long term fund-based Stand by Limit	-	5.40	[ICRA]BB+(Stable); reaffirmed
Short term non-fund-based Letter of Credit**	(10.00)	(10.00)	[ICRA]A4+; reaffirmed
Short term non-fund based FBG/SBLC**	-	(4.00)	[ICRA]A4+; reaffirmed
Short term fund-based/non fund based Forward Cover Exposure	2.00	2.00	[ICRA]A4+; reaffirmed
Long term/Short term Fund based Working Capital limits <sup>^</sup>	27.00	-	-
Long term/Short term Fund based Standby limit	5.40	-	-
<b>Total</b>	<b>34.40</b>	<b>34.40</b>	

\*Instrument details are provided in Annexure-1, <sup>^</sup> PCH/PCFC/FBP/FBD/REBA

\*\*Sublimit of PCH

### Rationale

The ratings reaffirmation continues to favourably factor in Shyam Industries' (SI) extensive experience of the promoters in the agro-commodity business and the established relationships with customers. The firm's adequate liquidity position backed by modest cash accruals and moderate utilisation of the working capital limits continue to support the ratings.

The ratings, however, are constrained by the modest scale of operations and decline in the operating income since FY2021 owing to regulatory changes in export of sesame seeds from India with effect from October 2020, particularly in the European Union countries. The ratings also take into account the vulnerability of profitability to foreign currency fluctuations due to sizeable export sales, the inherent volatility in agro-commodity prices (which are linked to crop availability, seasonality and harvest) and export incentives. Also, the operations of the firm are susceptible to regulatory changes pertaining to foreign trade in India as well as in the importing countries. The ratings continue to remain constrained by the high working capital intensity owing to high inventory holding and increasing receivable cycle. ICRA also notes the potential adverse impact on SI's net worth and gearing levels in case of any substantial withdrawal from the capital accounts, given that it is a partnership concern.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that SI will continue to benefit from the extensive experience of its promoters in the agro-commodity business and established relationship with its customers, which supports its revenue and profitability.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in the agro-commodities business** – The firm's key personnel, Mr. Sanjay Vachhani and Mr. Jay Vachhani, have extensive experience of more than a decade in the processing and export of agro commodities. This helps SI get continuous orders from the export market.

**Established customer base** – The clientele of the firm includes reputed customers from the domestic as well as export markets. The firm’s strong established relationship with its customers ensures repeat orders.

### Credit challenges

**Modest scale of operations, declined significantly in last two fiscals**– The company’s scale of operations is relatively smaller and has witnessed wide fluctuations over the last five years. Its operating margin too has remained volatile over the years because of its low value addition in the business and stiff competition due to the fragmented and unorganised market. Moreover, the operating income declined in FY2021 largely on account of the change in sesame import regulations in the European Union countries since October 2020. However, exports to EU countries have normalised again, resulting in an increase in the scale and profit margins for Shyam Industries since January 2022.

**Profitability vulnerable to fluctuation in forex rates and export incentives** – With more than 85% of its total sales coming from exports to different countries, the entity’s profitability remains susceptible to fluctuation in foreign exchange rates and export incentives provided by the Government in the sector. Export incentives accounted for a significant portion of SI’s operating profits over the past few years, which has declined substantially in the recent years, resulting in a moderation in profitability. Besides, the firm’s operations are susceptible to regulatory changes pertaining to foreign trade in India as well as in the importing countries.

**High working capital intensity of operations** – SI’s raw materials (agro-commodities), which constitute ~93-98% of the total manufacturing cost, include highly seasonal commodities. Thus, bulk procurement of good-quality agro-commodities in the peak season leads to high working capital requirement and high inventory holding period (~90 days). Further, the debtor days remained high in FY2021 and FY2022 due to high sales concentration during the year-end. Accordingly, the firm’s overall working capital intensity remains on the higher side, as evident from NWC/OI of ~31% in FY2022, up from ~26% in FY2019.

**Risk of capital withdrawals inherent in partnership concern** – SI remains susceptible to risks associated with its status as a partnership firm, including the risk of capital withdrawal. Moreover, ICRA notes that the partners have constantly withdrawn capital from the business. Although the impact of the same has not been adverse over the years due to decent accruals generated over the years and infusion of capital in the subsequent years, it takes comfort from the firm’s comfortable liquidity profile.

### Liquidity position: Adequate

SI’s liquidity position is adequate, driven by sufficient cash accruals and adequate buffer in the working capital limit, as evident from the moderate utilisation of ~32% during the past 15 months up to October 2022. Further, the firm does not have any fixed debt repayment obligations because of the absence of any bank term loans on its book. However, the firm’s liquidity remains exposed to the risk of large capital withdrawals by the partners.

### Rating Sensitivities

**Positive factors** – The ratings can be upgraded if there is a significant increase in the scale and profitability on a sustained basis. An improvement in its working capital cycle and liquidity on a sustained basis, would also be key credit positives.

**Negative factors** – Pressure on the ratings could arise if there is any stretch in the working capital cycle, leading to a deterioration in liquidity on a sustained basis. A significant decline in the scale and profitability, resulting in low cash flows, could also result in negative ratings action. Any significant capital withdrawal adversely impacting the capital structure and key credit metrics would key credit negatives.

## Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

SI was established in 1992 as a partnership firm by Mr. Lalji Vachhani. The firm processes (cleans and sorts) and exports agro commodities, such as sesame seeds, amaranth seeds, flax seeds, and kalonji. Of these, sesame seeds remain the major revenue earner. SI is managed by Mr. Sanjay Vachhani and Jay Vachhani, who have more than a decade's experience in the agro-commodity industry. This helps the firm receive continuous orders from its end customers. SI's processing facility is located at Naroda (industrial area) in Ahmedabad, Gujarat, and has an installed production capacity of 125 metric tonnes per day.

## Key financial indicators (audited)

Shyam Industries	FY2020	FY2021	FY2022*
OPBDIT	12.7	6.7	6.1
OPBDIT/OI (%)	8.8%	6.0%	6.2%
PAT/OI (%)	25.1%	13.4%	13.5%
Total outside liabilities/Tangible net worth (times)	0.8	1.1	0.1
Total debt/OPBDIT (times)	1.9	4.6	0.7
Interest coverage (times)	8.1	5.8	5.6

Source: ICRA Research; Note: \*FY2022 numbers are provisional

Note: Operating income and PAT figures have not been included in the Rationale on account of confidentiality concern raised by the rated entity.

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 01, 2022	Dec 03, 2021	Oct 13, 2020	Nov 21, 2019
1 Working Capital Limits - PCH/PCFC/FBP/FBD/REBA	Long-term	27.00	4.46	[ICRA]BB+ (Stable)	-	-	-
2 Standby Limit	Long-term	5.40	-	[ICRA]BB+ (Stable)	-	-	-
3 Letter of Credit	Short-term	(10.00)	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A4+
4 FBG/SBLC	Short-term	(4.00)	-	[ICRA]A4+	-	-	-
5 Forward Cover Exposure	Short-term	2.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A4+
6 Working Capital Limits - PCH/PCFC/FBP/FBD/REBA	Long term/Short term	-	-	-	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BBB- (Stable)/[ICRA]A3	[ICRA]BB+ (Stable)/[ICRA]A4+
7 Standby Limit	Long term/Short term	-	-	-	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BBB- (Stable)/[ICRA]A3	[ICRA]BB+ (Stable)/[ICRA]A4+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based PCH/PCFC/FBP/FBD/REBA	Simple
Long term fund-based Stand by Limit	Simple
Short term non-fund-based Letter of Credit	Very Simple
Short term non fund based FBG/SBLC	Very Simple
Short term fund based/non fund based Forward Cover Exposure	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Limits PCH/PCFC/FBP/FBD/REBA	FY2018	~8%	NA	27.00	[ICRA]BB+ (Stable)
NA	Standby Limit	-	-	-	5.40	[ICRA]BB+ (Stable)
NA	Letter of Credit	-	-	-	(10.00)	[ICRA]A4+
NA	FBG/SBLC	-	-	-	(4.00)	[ICRA]A4+
NA	Forward Cover Exposure	-	-	-	2.00	[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis- Not Applicable**

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