

**Press Release**

**Phoenix Overseas Limited**

August 27, 2020



**Rating Downgraded & Assigned**

<b>Total Bank Facilities Rated</b>	Rs. 60.00 crore
<b>Long Term Rating</b>	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
<b>Short Term Rating</b>	ACUITE A4+ (Downgraded from ACUITE A3)

**Rating Rationale**

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.60.00 crore bank facilities of Phoenix Overseas Limited (POL). The outlook is '**Stable**'.

The rating downgrade is on account of significant deterioration in the business risk profile of the company as reflected from the steep decline in operating income leading to lower cash accruals. The company's revenues have decreased by 78.05 percent to Rs.158.63 crores in FY2020 (Provisional) as compared to Rs.722.82 crores in FY2019. Moreover, there has been elongation in the working capital cycle of the company, which could put pressure on the company's liquidity position. Going forward, the company's ability to achieve higher revenues and sustain profitability while managing working capital efficiently would remain the key rating sensitivities.

Incorporated in 2002, Phoenix Overseas Limited (POL) is a Kolkata-based company engaged in trading of food products, majorly soya de-oiled cake and mustard oil cake which are mainly sold to the poultry feed manufacturers. The company is promoted by Mr. Aparesh Nandi and Jayanta Kumar Ghosh. The company also trades in other food products such as rice, wheat etc. Apart from the trading business, POL manufactures jute, leather and cotton bags and provides cold-storage facilities. Its warehouse with a capacity of 17000 MT and cold storage is located at Malda, West Bengal.

**Analytical Approach**

Acuite has considered the standalone business and risk profile of POL to arrive at the rating.

**Key Rating Drivers**

**Strengths**

• **Long track record of operations and experienced management**

The company has a long track record of 18 years in the trading and export of food products, majorly soya de-oiled cake, mustard oil cake and maize. The company is promoted by Mr. Aparesh Nandi, who has a business experience of over a decade in trading of raw materials for poultry feed manufacturing industries. The rating derives comfort from the long track record of operations and vast experience of management has helped the company to develop long term healthy relationship with its customers and suppliers.

• **Moderate revenue diversification with established long term relationship with customers**

POL is primarily engaged in trading of soya de-oiled cake and mustard oil cake. Additionally, the company also trades in other food products such as rice, wheat, maize and crude rapeseed oil and even manufactures jute, leather and cotton bags and provides cold-storage facilities. Thus, the company's expertise in the other segments partially mitigates the downturn of demand for their main products. The long track record of operations has helped the company to establish a decade long relationship with customers such as Quality Feeds Limited, C.P. Bangladesh Co. Limited, Spectra Hexa Feeds Limited and Aftab Bahumukhi Farm Limited.

Acuite believes the company's moderate revenue diversification and established long term relationship with customers will support the revenue growth going forward.

## Weaknesses

### • Modest financial risk profile

The company's financial risk profile is modest, marked by modest net worth, comfortable gearing and moderate debt coverage metrics. The net worth of the company stood at Rs.34.40 crores as on 31 March, 2020 (prov) as against Rs.33.32 crores in the previous year due to retention of profits. The gearing stood comfortable at 0.64 times as on 31 March, 2020 (prov) compared to 1.68 times as on March 31, 2019, on account of lower working capital borrowings. Total debt of Rs.22 crores as on 31 March, 2019 (prov) consist of mainly working capital borrowings of Rs 21.13 crores. Further, TOL/TNW (Total outside liabilities/Total net worth) stood at 1.00 times as on March 31, 2020 (prov) as compared to 3.27 times as on March 31, 2019. The moderate debt coverage metrics are marked by interest coverage ratio (ICR), which stood at 1.54 times in FY2020 (prov) as compared to 1.29 times in FY2019. NCA/TD (Net Cash Accruals/Total Debt) stood at 0.07 times in FY2020 (prov) as against 0.05 times in FY2019. Going forward, Acuite believes that the financial risk profile of the company is expected to remain at current levels over the medium term backed by moderate accruals and in the absence of anyone major debt-funded capex plans.

### • Decline in revenues and exposure to geographical concentration risks

The company's revenues have decreased by 78.05 percent to Rs.158.63 crores in FY2020 (Provisional) as compared to Rs.722.82 crores due to lower exports of mustard oil cake and soyabean de-oiled cake(DOC) driven by the slowdown in demand of these products from poultry manufacturers and traders in Bangladesh on account of higher prices of these products. However, in FY2021, the demand situation has picked up due to a decrease in their prices and removal of the residual excise duty on these traded products. As a result, the company has been able to register sales of Rs. 80 crores till July 2020(Provisional).

Moreover, the company remains exposed to geographical concentration risk as Bangladesh accounts for a major portion of its total sales. During FY2020, around 68 percent of the total sales were derived from exports. Thus, diversification of the customer base will remain a key rating sensitivity. Any changes in the trade policy of Bangladesh can impact the operations of POL.

## Rating Sensitivity

- Improvement in scale of operations
- Reduction in the working capital cycle

## Material Covenants

None

## Liquidity Profile: Adequate

Liquidity profile is adequate, marked by net cash accruals of Rs.1.61 crores in FY 2020(Prov) against Rs. 0.10 crore of repayment obligation over the same period. The net cash accruals are expected to be ranging from Rs.2.79 crores to Rs.4.52 crores over the medium term. The current ratio of the company stood modest at 1.69 times as on March 31, 2020(Prov) as against 1.21 times as on March 31, 2019. Further, the company maintained unencumbered cash and cash equivalents of Rs.7.03 crores as on March 31, 2020(Prov). The company has not availed loan moratorium but has availed additional COVID loan of Rs. 7 crores. The fund based utilization is high at 80 percent during the last six months ended June 2020. Acuite believes that the liquidity of the company will continue to remain adequate, supported by moderate accruals against no major debt repayments over the medium term.

## Outlook: Stable

ACUTE believes the company will maintain a stable business risk profile over the medium term. The company will continue to benefits from experienced management and long track record of operation. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations with improvement in financial risk profile. The outlook may be revised to 'Negative' in case of further dip d in the company's scale of operations or in case of further lengthening of working capital cycle.

### About the Rated Entity - Key Financials

	Unit	FY20 (Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	158.63	722.82
PAT	Rs. Cr.	1.08	2.03
PAT Margin	(%)	0.68	0.28
Total Debt/Tangible Net Worth	Times	0.64	1.68
PBDIT/Interest	Times	1.54	1.29

### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
13-June-2019	Cash Credit	Long Term	2.75	ACUITE BBB-/Stable (Assigned)
	Proposed Long Term facilities	Long Term	3.20	ACUITE BBB-/Stable (Assigned)
	Packing Credit	Short Term	50.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	1.05	ACUITE A3 (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	24.85	ACUITE A4+ (Downgraded from ACUITE A3)

Term Loan	Not Available	Not Applicable	Not Available	0.84	ACUITE BB+/ Stable (Assigned)
Proposed Long Term facilities	Not Applicable	Not Applicable	Not Applicable	30.26	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Downgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE A4+ (Downgraded from ACUITE A3)

## Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a></p> <p>Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 <a href="mailto:shubham.ghosh@acuite.in">shubham.ghosh@acuite.in</a></p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

## About Acuité Ratings & Research:

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