

Press Release

Merchant Agri Global Private Limited

June 05, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs.112.50 Cr.
Long Term Rating	ACUITE BB / Outlook : Stable (Downgraded from ACUITE BB+ / Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and reaffirmed the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.112.50 crore bank facilities of Merchant Agri Global Private Limited (MAGPL). The outlook is '**Stable**'.

The downgrade in the rating is on account of moderation in operating performance leading to significant deterioration in the financial risk profile.

The Indore-based MAGPL was incorporated in 2006, and is promoted by Mr. Abhishek Agrawal and family. The company is engaged in the trading and exporting of agricultural commodities mainly animal feed raw materials that various types of meals, de-oiled rice bran, millet, maize, wheat and rice among others. Mr. Abhishek Agrawal (Managing Director) manages the day-to-day operations of the company.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MAGPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced promoters and established track record of operations**

MAGPL was incorporated in 2006, promoted by Mr. Abhishek Agarwal and family. They have experience of more than two decades in the similar line of business. Over the years, the promoters have gained insight about the agricultural commodity industry and have developed healthy relations with customers and suppliers.

Acuité believes that promoter's extensive industry experience and their relations with the customers and suppliers would help the company to sustain its existing business risk profile.

- Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate tangible net worth, debt protection measures and gearing. The net worth of the company stood around Rs.36.89 crore in FY2018 as against Rs.36.79 crore in FY2017. The company has followed an average leverage policy as reflected by peak gearing of 2.53 times over the last three years through 2017-18. Going forward, the gearing is expected to improve due to reduction in sanctioned credit limits.

Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.25 times as on 31 March 2018 as against 3.32 times as on 31 March 2017 and is estimated to remain around 2.00-3.00 times over the medium term. The declining revenue levels coupled with stable operating margins have resulted in deterioration of debt protection metrics. Interest Coverage Ratio (ICR) declined to 1.03 times as on March 31, 2018 as against 1.28 times on March 31, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood almost nil as on March 31, 2018. Debt Service Coverage Ratio (DSCR) declined to 1.01 times as on March 31, 2018 as against 1.19 times as on March 31, 2018. Acuité believes that the financial risk profile of MAGPL will continue to remain moderate over the medium term on account of improving profitability and conservative financial policy.

Weaknesses

- **Declining scale of operations**

The company's scale of operations have consistently declined from FY16 to FY19. Turnover stood at Rs.651 crores in FY16 which stood at Rs.351 crores (provisional) in FY19. The decline in the turnover was on account of increase in raw material prices like soya and high competition. Additionally, the company's is focusing on bottom line rather than top line.

- **Operating in a highly fragmented agro commodity trading industry**

The agro-commodities industry is highly competitive marked by presence of several organised as well as unorganised players and low entry barriers.

- **Agro climatic risks**

Soya seeds, the main raw material for the company is a seasonal crop, the prices of which are highly volatile and depend upon various factors including monsoon, acreage under cultivation, government regulations etc. As a result, the company's profit margins are exposed to agro climatic risks.

Liquidity Position:

Liquidity of MAGPL is marked by low net cash accruals of Rs.0.39 crores during FY2018. The cash accruals of the company are expected to improve and remain in the range of Rs.3-5 crore with no major repayment obligations. The company's working capital operations are moderate as marked by gross current asset (GCA) days of 102 in FY 2018. This has led to reliance on working capital borrowings. The cash credit limit in the company remained utilised at around 97 percent during the last 6 months ended April 2019. The company maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.33 times as on March 31, 2018. Acuité believes that the liquidity of the company will remain comfortable over near to medium term on account of increasing net cash accruals, no repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuité believes that MAGPL will continue to benefit over the medium term from its promoters extensive industry experience and funding support. The outlook may be revised to 'Positive' in case of significant increase in the scale of operations and profitability leading to improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the financial risk profile further deteriorates on account of low profitability/revenues or if any debt-funded capital expenditure is undertaken. Substantial increase in working capital requirement resulting in weakening of the liquidity profile may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	509.36	600.05	651.14
EBITDA	Rs. Cr.	13.64	15.30	19.66
PAT	Rs. Cr.	0.04	2.11	4.51
EBITDA Margin	(%)	2.68	2.55	3.02
PAT Margin	(%)	0.01	0.35	0.69
ROCE	(%)	10.57	12.38	16.13
Total Debt/Tangible Net Worth	Times	2.51	2.60	2.48
PBDIT/Interest	Times	1.01	1.19	1.36
Total Debt/PBDIT	Times	6.53	6.00	4.29
Gross Current Assets (Days)	Days	102	92	71

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading entities - <https://acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09-Mar-2018	Cash Credit	Long Term	25.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- / Stable)
	Cash Credit	Long Term	10.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- / Stable)
	Cash Credit	Long Term	10.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- / Stable)
	Packing Credit	Short Term	15.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Post Shipment Credit	Short Term	20.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Packing Credit	Short Term	15.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Short Term	15.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Proposed Short Term Facility	Short Term	2.50	ACUITE A4+ (Downgraded from ACUITE A3)
01-Dec-2016	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Post Shipment Credit	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	PSR	Short Term	1.30	ACUITE A3 (Reaffirmed)
	Forward Cover	Short Term	1.20	ACUITE A3 (Reaffirmed)
26-Oct-2015	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- / Stable (Reaffirmed)

	Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Reaffirmed)
	Packing Credit	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Post Shipment Credit	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	PSR	Short Term	1.30	ACUITE A3 (Reaffirmed)
	Forward Cover	Short Term	1.20	ACUITE A3 (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BB / Stable (Downgraded from ACUITE BB+ / Stable)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB / Stable (Downgraded from ACUITE BB+ / Stable)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+ (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB / Stable (Downgraded from ACUITE BB+ / Stable)
Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Rishabh Mundada Analyst - Rating Operations Tel: 022-49294051 rishabh.mundada@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.