

Press Release

Tirupati Oil Industries

January 25, 2019



Rating Upgraded, Withdrawn and Assigned

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B /Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) from '**ACUITE B** (read as **ACUITE B**) on the Rs.12.25 crore bank facilities of Tirupati Oil Industries (TOI). The outlook is '**Stable**'.

Acuité has withdrawn long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) on the Rs.0.75 crore bank facilities of Tirupati Oil Industries (TOI).

Acuité has assigned long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) on the Rs.0.75 crore bank facilities of Tirupati Oil Industries (TOI). The outlook is '**Stable**'.

The rating revision is in view of improvement in the firm's overall business risk profile coupled with comfortable working capital cycle. The gross current assets (GCA) stood at 229 days in FY2018 as against 451 days in FY2017. The inventory holding stood at 130 days for FY2018 as against 304 days in FY2017 and collection period stood at 49 days in FY2018 as against 82 days in FY2017. Acuité expects that the firm will be able to maintain this level for the medium term.

Established in 1996, Gujarat-based partnership firm TOI is promoted by Mr. Babubhai Patel and his family. The firm is engaged in the business of cotton ginning. The firm also undertakes pressing and crushing operations. Oil produced out of crushing of cotton seed is sent to its refinery Tirupati Agro Oil Private Limited. The firm has 42 ginning machines and a pressing machine with capacity of 350 cotton bales per day. Besides, it also has 10 expellers with capacity of 900 tons of cottonseed oil per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

TOI was established in 1996 by Mr. Babubhai Patel and is currently managed by Mr. Prashant Patel. The firm has established track record of more than two decades in the same line of business. The promoters possess vast experience in this industry and are ably assisted by an experienced second line of management.

Acuité believes that TOI will benefit from its experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs.12.53 crore as on March 31, 2018 against Rs.15.00 crore as on March 31, 2017. Decline in networth is on account of withdrawal of capital by the promoters. Networth includes unsecured loans of Rs.7.57 crore as on 31 March, 2018 which are subordinated to bank debt. Hence, Acuité has considered them as quasi equity. Gearing (debt-equity) stood at 0.87 times as on March 31, 2018 from 0.85 times in the previous year. The total debt of Rs. 10.85 crore as on March 31, 2018 majorly comprises working capital borrowings of Rs.10.76 crore and term loan of Rs.0.09 crore. Interest Coverage Ratio (ICR) stood at 1.09 times for FY2018 as against 1.14 times for FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.90

times as on March 31, 2018 as against 0.87 times as on March 31, 2017.

Acuité believes that the firm's ability to improve its net worth along with debt protection metrics will remain key rating sensitivity.

Weaknesses

- **Vulnerability to volatility in cotton prices**

The firm is exposed to fluctuations in raw material prices i.e. cotton. Being an agro product the industry is dependent on monsoon, crop yield, area under cultivation and government schemes. Thus, inadequate rainfall may affect the availability of cotton in adverse weather condition. Also, The purchase and selling prices depend on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of cotton prices further impacts profitability.

The firm's operating margin stood at 4.78 percent in FY2018 as against 5.96 percent in FY2017 and 3.74 percent in FY2016. In-line with the operating margins, Profit after Tax (PAT) margins stood at 0.22 percent in FY2018 as against 0.44 percent in FY2017 and 0.21 percent in FY2016.

Liquidity position

Net cash accruals of TOI stood at Rs. 0.19 crore as against debt obligation of Rs. 0.09 crore for FY2018. TOI's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 229 in FY 2018 as against 451 days in FY2017. This has led to lower reliance on working capital borrowing, the cash credit limit in the firm remains utilized at 95.00 percent during the last six months period ended December 2018. The current ratio of the firm stands healthy at 1.98 times as on March 31, 2018. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that TOI will maintain a 'Stable' outlook and benefit over the medium term on the back of its promoters experience in this industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	35.22	21.24	28.59
EBITDA	Rs. Cr.	1.68	1.27	1.07
PAT	Rs. Cr.	0.08	0.09	0.06
EBITDA Margin	(%)	4.78	5.96	3.74
PAT Margin	(%)	0.22	0.44	0.21
ROCE	(%)	8.69	6.54	15.54
Total Debt/Tangible Net Worth	Times	0.87	0.85	1.37
PBDIT/Interest	Times	1.09	1.14	1.12
Total Debt/PBDIT	Times	4.64	7.25	6.89
Gross Current Assets (Days)	Days	229	451	278

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

None

Any other information

None

Applicable Criteria

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Cr.)	Ratings/Outlook
12-Oct-2018	Cash Credit	Long Term	INR 12.25	ACUITE B (Indicative)
	Term Loan	Long Term	INR 0.75	ACUITE B (Indicative)
22-Aug-2017	Cash Credit	Long Term	INR 12.25	ACUITE B / Stable (Reaffirmed)
	Term Loan	Long Term	INR 0.74	ACUITE B / Stable (Reaffirmed)
17-Nov-2015	Cash Credit	Long Term	INR 12.25	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	INR 0.75	ACUITE B / Stable (Assigned)

***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	12.25	ACUITE B+ /Stable (Upgraded from ACUITE B /Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B+/ Stable (Withdrawn)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B+ /Stable (Assigned)

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About Acuité Ratings & Research:

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