

Press Release

Ratanlal Radheshyam

August 26, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Upgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.10.00 crore bank facilities of Ratanlal Radheshyam (RR). The outlook is '**Stable**'.

The upgrade in the rating is on account of improvement in the operating income of the firm and long track record of operation, which has helped the firm in maintaining a healthy relationship with its customers and suppliers. Also, there has been an improvement in the net worth level in FY2020 due to an additional infuse of the capital by the promoters. The operating income of the firm has increased to Rs.78.68 crore (Prov.) in FY2020 from Rs.64.30 crore in FY2019. The net worth level has improved to Rs.9.58crore (Prov.) as on March 31, 2020 as against Rs.7.44 crore as on March 31, 2019.

Established in the year 1953, RR is a Maharashtra based partnership firm promoted by Heda family. The firm is engaged in the business of trading of agro related products and also the processing of pulses. The firm sells the processed pulses under it's own brand-RR Silver, RR Diamond, etc. The processing unit has an installed capacity of 2MT/Hour.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

RR was established in the year 1953. The firm is promoted by Heda family. The partners of the firm have been engaged in the aforementioned business line for more than three decades. The extensive experience of the partners has helped in establishing healthy relationships with its customers and suppliers. The key customers of the firm include names like Suguna Foods Private Limited, Sneha Foods, Abis Exports and Yash Pulses amongst others. The key suppliers include names like Raunak Trading Company, Govind Trading Company and RCF Limited, to name a few. On the back of the stable and repeated orders from its customer, the operating income of the firm has increased by around 22.36 percent to Rs.78.68crore (Prov.) in FY2020 from Rs.64.30crore in FY2019.

Acuité believes that the firm will benefit from the experience of the partners along with a healthy relationship with its customers and suppliers.

- Working capital management is moderate in nature**

RR has moderate working capital operation marked by Gross Current Asset (GCA) days of 105 (Prov.) in FY2020 as against 102 days in FY2019. The firm had maintained an inventory holding period of around 62 days (Prov.) as on March 31, 2020 as against 71 days as on March 31, 2019. RR had extended a credit period of around 31 days (Prov.) as on March 31, 2020 to its customer as against 26 days as on March 31, 2019. As a result, the reliance on the working capital limit is moderate, leading to moderate utilization of its bank line at an average of around 69.97 percent over the last 6 months through July, 2020, while its peak utilization was high at around 95.91 percent during the same period. The credit payback period to its supplier has declined to 1 day (Prov.) as on March 31, 2020 from 5 days as on

March 31, 2019.

Acuité expects the working capital management to remain moderate over the medium term on account of agricultural nature of business.

Weaknesses

- **Above average financial Risk Profile**

RR's financial risk profile is above average, marked by moderate net worth, high gearing and average debt protection metrics. The firm's net worth is average and is estimated at around Rs.9.58crores (Prov.) as on March 31, 2020 as against Rs.7.44crores as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020 on account of limited accretion to reserves and additional capital infusion by the promoters during the same period. The gearing continues to remain high around 1.10 times (Prov.) as on March 31, 2020 as against 1.26 times as on March 31, 2019. As on March 31, 2020, the total outside liabilities to tangible net worth (TOL/TNW) level stands at 1.38 times (Prov.) as against 1.42 times as on March 31, 2019. The firm, on the other hand, generated cash accruals of Rs.0.19crore (Prov.) in FY2020.

The revenue of the firm has increased by around 22.36 percent to Rs.78.68crore (Prov.) in FY2020 from Rs.64.30crore in FY2019. EBITDA in absolute term has increased to Rs.1.24crore (Prov.) in FY2020 from Rs.1.05crore in FY2019 due to decline in the expenses incurred while processing the pulses. The decline in the processing cost is due to the procuring of polished pulses. Similarly, PAT has increased from Rs.0.17crore in FY2019 to Rs.0.18crore (Prov.) in FY2020. The low profitability levels, coupled with moderate debt levels, have led to average debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.02 times (Prov.) and 1.16 times (Prov.) respectively as against 0.02 times and 1.21 times in FY2019, respectively. The Debt-EBITDA ratio stands at 7.88 times (Prov.) in FY2020 against 8.95 times in FY2019.

Acuité expects the financial risk profile to remain above average over the medium term on account of its modest scale of operations and net cash accruals.

- **Susceptibility of operating margins due to fluctuation in raw material prices**

RR deals in agro commodities, the prices of which are highly volatile and depend upon various factors like the monsoon, acreage under cultivation, government regulations, etc. as a result the margins are exposed to fluctuations in raw material prices. The operating margin has declined from 1.63 percent in FY2019 to 1.58 percent (Prov.) in FY2020. Similarly, the PAT margin has declined to 0.22 percent (Prov.) in FY2020 from 0.27 percent in FY2019. Also, the firm operates in a highly competitive and fragmented nature of industry characterized by low entry barriers and low capital intensity of the business.

Liquidity Position: Adequate

The firm has adequate liquidity marked by low net cash accruals to no maturing debt obligations. The firm generated cash accruals of Rs.0.19crore (Prov.) in FY2020 as against no maturing debt obligations during the same period. The cash accrual of the firm is estimated to remain around Rs.0.25crore to Rs.0.52crore during 2021-23 against no repayment obligations during the same period. The firm's working capital operations are moderate, marked by the Gross Current Asset (GCA) days of 105 days (Prov.) for FY2020. The average bank limit utilisation stood at 69.97 percent for six months ended July, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.48crore (Prov.) as on 31 March 2020. The current ratio stands at 1.72 times (Prov.) as on 31 March 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of low to moderate net cash accruals to no debt repayments over the medium term.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Improvement in the financial risk profile

Outlook: Stable

Acuité believes that RR will maintain a stable outlook over the medium term backed by its experienced partners and established track record in the aforementioned industry. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the firm generates lower-than-anticipated cash accruals, most likely as a result of sharp a decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	78.68	64.30
PAT	Rs. Cr.	0.18	0.17
PAT Margin	(%)	0.22	0.27
Total Debt/Tangible Net Worth	Times	1.10	1.26
PBDIT/Interest	Times	1.16	1.21

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jun-2019	Cash Credit	Long Term	10.00	ACUITE BB-/Stable (Reaffirmed)
09-Mar-2018	Cash Credit	Long Term	10.00 (Enhanced from Rs.6.00Crore)	ACUITE BB-/Stable (Reaffirmed)
25-Feb-2016	Cash Credit	Long Term	6.00	ACUITE BB-/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	10.00	ACUITE BB / Stable (Upgraded from ACUITE BB-/Stable)

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About Acuité Ratings & Research:

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