Press Release

Pragati Agri Products Private Limited

07 December, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable
Short Term Rating	SMERA A3+

** Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long-term rating on the Rs.8.00 crore bank facilities of Pragati Agri Products Private Limited (PAPPL) to **'SMERA BBB' (read as SMERA triple B)** from SMERA BBB-' (read as SMERA triple B minus) and short term rating to **'SMERA A3+' (read as SMERA A three plus)** from 'SMERA A3' (read as SMERA A three). The outlook is **'Stable'**.

The rating upgrade is in view of the improvement in the revenue which exceeded SMERA's projections for FY2017. The rise in revenue coupled with improvement in the profitability margins has resulted in rise in net cash accruals. Further, there has been improvement in the debt protection metrics. SMERA believes that PAPPL will be able to maintain growth in revenue and profitability along with improvement in its financial risk profile in the medium term.

PAPPL, incorporated in 1995, is a Kolkata-based company engaged in the extraction of rice bran oil and trading of deoiled rice bran. The manufacturing sales constituted ~ 57 per cent with trading contributing the balance in FY2017. The company was promoted by Mr. Sushil Kumar Agarwal and Mr. Rishabh Agarwal who jointly have more than three decades of experience in the edible oil industry. PAPPL exports around 60 per cent of its produce to Vietnam, Cambodia, Thailand and Bangladesh. The manufacturing unit located at Burdwan, West Bengal has installed capacity of 66,000 metric tonnes per annum (MTPA).

Key Rating Drivers

Strengths

Experienced management

PAPPL was incorporated in 1995. The company was initially engaged in the trading of rice bran oil and rice bran. However, from 2006, PAPL forayed into extraction of rice bran crude oil and sale of rice bran oil and deoiled rice bran. The long track record of operations of the company has helped it maintain long standing relations with suppliers and customers. The promoter, Mr.Sushil Agarwal has extensive experience of three decades in the edible oil industry. Further, the management is supported by well qualified and experienced second line of management.

Comfortable financial risk profile

The financial risk profile of PAPPL is healthy marked by comfortable gearing (debt-equity) of 0.51 times as on 31 March, 2017 (Provisional) compared to 0.50 times as 31 March, 2016. The total debt of Rs.7.27 crore as on 31 March, 2017 (Provisional) comprises working capital facility. The Interest coverage ratio stood robust at 7.50 times in FY2017 (Provisional) as against 6.79 times in FY2016. The net worth stood moderate at Rs.14.24 crore as on 31 March, 2017 (Provisional) as against Rs.13.35 crore as on 31 March, 2016. The NCA/TD stood at 0.31 times for FY2016-17 (Provisional).

Improvement in operating income

The operating income of PAPPL exceeded SMERA's projection inFY2017. The company registered revenue of Rs. 135.67 crore in FY2017 (Provisional) as against Rs 99.82 in FY2016 on account of increase in manufacturing as well as trading. Manufacturing sales stood at Rs 78.50 crore in FY2017 (Provisional) as against Rs 49.49 crore in FY2016, The company registered trading sales of Rs 54.87 in FY2017 (Provisional) compared to Rs 47.71 crore in FY2016. The rise in operating income is on account of increase in the dealer base in Andhra Pradesh, Kerala, Telangana, West Bengal and Maharashtra. During the current year till September 2017, the company clocked revenue of ~ Rs 90 crore.

Prudent working capital cycle

PAPPL has comfortable working capital cycle of 23 days in FY2017 (Provisional) as against 43 days in FY2015. Also, the GCA days are low at 57 days in FY2017 (Provisional) as against 54 days for FY2016. The average cash credit limit utilisation stood at ~50 per cent.

Strategic location

The processing facility of the company is located at Burdwan, West Bengal, one of the leading producers of rice in India providing proximity to raw material source.

Weaknesses

Low profit margins inherent in the edible oil business

The edible oil market is characterised by thin margin due to low value additive nature and intense competition. In FY2017, the operating margin stood at 2.09 percent (Provisional) as against 2.06 per cent in FY2016. Further, around 50 per cent of the revenue is derived from trading operations leading to constrained margins. PAPPL has low PAT margin of 1.18 percent in FY2017 (Provisional) as against 0.97 percent in FY2016.

Exposure to volatility in prices, agro-climatic conditions

The main raw material for the company, paddy is a seasonal crop, the production of which is highly dependent on the monsoon. Therefore, the company is exposed to volatility in prices on account of agro-climatic conditions. Sudden changes like inadequate rainfall or drought might affect the availability of the crop pushing commodity prices upwards. PAPL's raw material cost accounts for ~85 percent of cost of sales. Thus, the profitability is exposed to volatility in raw material prices.

Highly fragmented edible oil industry

The Indian edible oil industry is highly fragmented, with a large number of companies in the organised and unorganised sector due to low entry barriers (low capital and technical requirements of business and liberal policy regime). This has resulted in severe competition and inherently thin profitability margins.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of PAPPL.

Outlook: Stable

SMERA believes that the outlook on PAPPL's rated facilities will remain stable over the medium term on account of the company's experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company registers sustained growth in revenue while improving profit margins and maintaining comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in operating profit margin or significant deterioration in the capital structure on account of larger than envisaged debt funded capex and working capital borrowings.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the company reported Profit after tax (PAT) of Rs.1.60 crore on operating income of Rs 135.67 crore as against Profit after tax (PAT) of Rs 0.97 crore on operating income of Rs 99.82 crore in FY2015-16.

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

None

Any other information

None

Applicable Criteria

- Default Recognition -https://www.smera.in/criteria-default.htm
- Manufacturing Entities -https://www.smera.in/criteria-manufacturing.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instruments/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
3 Aug, 2016	Packing Credit	Short Term	4.00*	SMERA A3 (Assigned)
	Cash Credit	Long Term	4.00	SMERA BBB-/Stable(Assigned)

**Includes sublimit of Letter of Credit cum bank guarantee to the extent of Rs 0.50 cr*

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BBB/Stable (Upgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A3+ (Upgraded)

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ABOUT SMERA

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