



Press Release

Pragati Agri Products Private Limited

October 17, 2018

Rating Re-affirmed and Assigned

Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Re-affirmed)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on Rs 12.00 crore bank facilities of Pragati Agri Products Private Limited (PAPPL). Acuité has also assigned long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 2.00 crore bank facilities of PAPPL. The outlook is "**Stable**".

Incorporated in 1995- PAPPL is a Kolkata-based company engaged in the extraction of rice bran oil and de-oiled rice bran (DORB). The company was promoted by Mr. Sushil Kumar Agarwal who has more than three decades of experience in the edible oil industry. The rice bran oil is sold to the edible oil refineries in the domestic markets whereas DORB are exported 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).

Analytical Approach:

Acuité has taken a standalone view of the business and financial risk profile of PAPPL to arrive at the rating.

Key Rating Drivers:

Experienced management and long track record of operations

The company has a long track record of over two decades in the edible oil industry. The company was initially engaged in the trading of rice bran oil and DORB. However, from 2006, PAPPL forayed into extraction of rice bran crude oil and DORB. The long track record of operations of the company has helped PAPPL to establish long standing relations with suppliers and customers.

Healthy financial risk profile

The healthy financial risk profile of the PAPPL is marked by its modest net worth, comfortable gearing and strong debt protection metrics. The net worth stood at Rs. 14.81 cr as on 31st March'2018 as compared to Rs 14.24 crs in the previous year. The gearing (debt to equity ratio) of the company stood at 0.73 times as on 31st March, 2018 as against 0.51 times as on 31st

March, 2017. PAPPL reported a robust interest coverage ratio of 6.69 times as on 31st March, 2018 as against 7.50 times as on 31st March, 2017. Strong Net Cash accruals to Total Debt (NCA/TD) of 0.21 times as on 31st March, 2018.

Prudent working capital cycle

PAPPL has comfortable working capital cycle of 41 days in FY2018 as against 23 days in FY2017. Also, the GCA days are comfortable at 60 days in FY2018 as against 58 days in FY2017. The average utilization in working capital limit is also low at ~51 per cent during the six month ended September'18.

Weaknesses

Low profit margins inherent in edible oil business

The edible oil market is characterized by thin margin due to low value additive nature and intense competition. In FY2018, the operating margin stood at 3.01 percent as against 2.09 per cent in FY2017. Further, around 40 per cent of the revenue is derived from trading operations leading to constrained margins. PAPPL has low PAT margin of 1.37 percent in FY2018 as against 1.18 percent in FY2017.

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. PAPPL'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 organized and unorganized 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.

Outlook: Stable

Acuité 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	113.82	135.67	99.82
EBITDA	Rs. Cr.	3.43	2.84	2.05
PAT	Rs. Cr.	1.55	1.60	0.97
EBITDA Margin	(%)	3.01	2.09	2.06
PAT Margin	(%)	1.37	1.18	0.97
ROCE	(%)	12.24	14.05	9.98
Total Debt/Tangible Net Worth	Times	0.73	0.51	0.50
PBDIT/Interest	Times	6.69	7.50	6.79
Total Debt/PBDIT	Times	3.05	2.08	2.71
Gross Current Assets (Days)	Days	60	58	54

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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
07-December-2017	Cash Credit	Long Term	4.00	ACUITE BBB/Stable (Upgraded)
	Packing Credit	Short Term	4.00	ACUITE A3+ (Upgraded)
03-August-2016	Cash Credit	Long Term	4.00	ACUITE BBB-/Stable (Assigned)
	Packing Credit	Short Term	4.00 *	ACUITE A3 (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	12.00 #	ACUITE BBB/Stable (Re-affirmed)
Proposed Long Term Facilities	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Assigned)

Includes export packing credit of Rs 12 cr as sublimit of Cash Credit.

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About Acuité Ratings & Research:

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