

## Press Release

### AI-Safa Industries Private Limited (AIPL)

26 June, 2020



#### Rating Reaffirmed and assigned

|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs. 8.17 Cr.<br>(Enhanced from Rs.7.50 Cr.)    |
| <b>Long Term Rating</b>             | ACUITE B+ /Stable<br>(Reaffirmed and assigned) |

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+** (read as ACUITE B plus) on the Rs. 7.50 Crore bank facilities of Al-Safa Industries Private Limited. The outlook is '**Stable**'.

Further, Acuité has assigned long-term rating of '**ACUITE B+** (read as ACUITE B plus) to the Rs. 0.67 crore bank facilities of AIPL. The outlook is '**Stable**'.

AIPL is an Uttar Pradesh-based company incorporated in 2013 by Directors, Mr. Sharafat Ali and Mr. Mohammad Azeem. The promoters have taken over their three sister concerns, namely, M/s Al Safa Exports (Partnership Firm) established in 2005, M/s Al Marwah Foods (Proprietorship Firm) established in 2000 and M/s Star Mineral Chemicals & Foods (Partnership Firm) established in 1999, and formed Al-Safa Industries Private Limited. The company is engaged in the trading of raw hides, poultry feeds supplements, live animals, mutton tallow, animal fat and livestock.

#### Analytical Approach

Acuité has considered the standalone financial and business risk profile of AIPL to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management**

AIPL was incorporated in 2013 by Mr. Sharafat Ali, Mr. Mohammad Azeem and Mr. Dilshad Ahmed. The Directors have more than a decade of experience in the said line of business.

- **Comfortable working capital operations**

AIPL has efficient working capital operations marked by Gross Current Assets (GCA) of 56 days in FY2020 (Provisional) as against 49 days in FY2019. The inventory holding period stood at 25 days in FY2020 (Provisional) as against 23 days in FY2019. The receivable period stood at 29 days in FY2020 (Provisional) as compared to 26 days in FY2019. AIPL gets credit period of up to a week from its suppliers. However, the average bank limit utilization stood at ~99 percent for the last six months ended May, 2020.

##### Weaknesses

- **Below average financial risk profile**

The financial risk profile is below average marked by low net worth, average debt protection measures and high gearing. The net worth of AIPL stood at Rs.2.79 crore as on 31 March, 2020 (Provisional) as against Rs.2.51 crore as on 31 March, 2019. AIPL has followed an aggressive financial policy as reflected by peak gearing of 3.98 times over the last three years through 2018-20. However, the gearing of the company has improved to 3.31 times as on March 31, 2020 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) has also improved to 3.56 times as on 31 March, 2020 (Provisional) as against 4.51 times as on 31 March, 2019. Interest Coverage Ratio (ICR) has improved but remained average at 1.43 times in FY2020 (Provisional) and 1.86 times in FY2018.

- **Highly regulated and fragmented industry**

The company operates in livestock and trading industry, which is highly regulated, fragmented and presence of large unorganized players making the industry competitive, which is reflected in the thin profitability margin of the company.

- **Customer concentration risk**

Company's majority of revenue is contributed by two client i.e. ALM Food Products Limited and M/S ALM Industries Limited. ALM Food Products Limited and M/S ALM Industries Limited contribute almost ~75-80 percent of the total revenue of the company. In FY2020, these 2 specific companies contributed 78% of the total revenue.

**Outlook: Stable**

Acuite believes that AIPL will maintain 'Stable' outlook over the medium term from its promoter's experience in the industry. The outlook may be revised to 'Positive' in case the company is able to register healthy revenues and sustain its profitability. Conversely, the outlook will be revised to 'Negative' in case of continuous decline in the company's revenue and profit margins and working capital cycle.

**Material Covenant**

None

**Rating sensitivity**

- Significant decline in revenues for the past 2 years.

**Liquidity position: Adequate**

AIPL has adequate liquidity marked by average net cash accruals as compared to its maturing debt obligations. AIPL generated cash accruals of Rs.0.30-0.45 crore during the last three years through 2018-20, while there was no significant debt maturity obligation over the same period. The cash accruals of AIPL are estimated to remain around Rs.0.26-0.44 crore during 2021-23, while its repayment obligations are estimated to be around Rs.0.25 crore for FY2022 and FY2023. AIPL maintains unencumbered cash and bank balances of Rs.0.38 crore as on March 31, 2020 (Provisional). The current ratio of AIPL stood moderate at 1.55 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity of AIPL is likely to remain adequate over the medium term on account of no major repayments over the medium term.

**About the Rated Entity - Key Financials**

|                               | Unit    | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income              | Rs. Cr. | 81.94              | 87.05         |
| PAT                           | Rs. Cr. | 0.28               | 0.28          |
| PAT Margin                    | (%)     | 0.34               | 0.32          |
| Total Debt/Tangible Net Worth | Times   | 3.31               | 3.49          |
| PBDIT/Interest                | Times   | 1.43               | 1.49          |

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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/criteria-complexity-levels.htm>

**Rating History (Up to last three years)**

| Date         | Name of Instrument / Facilities | Term      | Amount (Rs. Cr) | Ratings/Outlook               |
|--------------|---------------------------------|-----------|-----------------|-------------------------------|
| 06-May-2020  | Cash Credit                     | Long Term | 7.50            | ACUITE B+ (Indicative)        |
| 27-Feb-2019  | Cash Credit                     | Long Term | 7.50            | ACUITE B+/Stable (Reaffirmed) |
| 24-Jan-2019  | Cash Credit                     | Long Term | 7.00            | ACUITE B+/Stable (Reaffirmed) |
| 25-Nov-2017  | Cash Credit                     | Long Term | 6.00            | ACUITE B+/Stable (Reaffirmed) |
|              | Proposed Long Term Loan         | Long Term | 1.00            | ACUITE B+/Stable (Reaffirmed) |
| 26-Sept-2017 | Cash Credit                     | Long Term | 4.00            | ACUITE B+ (Indicative)        |
|              | Proposed Long Term Loan         | Long Term | 3.00            | ACUITE B+ (Indicative)        |

**\*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 | 7.50                        | ACUITE B+/Stable (Reaffirmed) |
| Term Loan              | Not Available    | Not Applicable | Not Available  | 0.67                        | ACUITE B+/Stable (Assigned)   |

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**About Acuité Ratings & Research:**

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