

Press Release
AI-Safa Industries Private Limited
 June 28, 2021
Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 9.67 Cr. (Enhanced from Rs.8.17 Crore)
Long Term Rating	ACUITE B+/Stable (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed & assigned the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.9.67 Crore bank facilities of Al-safa Industries Private Limited (AIPL). The outlook is '**Stable**'.

About the Company

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 business and financial 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.

• **Moderate working capital management**

The working capital management of the company is moderate in FY2021 (Provisional) marked by Gross Current Assets (GCA) of 58 days in FY2021 (Provisional) as against 56 days in FY2020. The inventory and debtor levels stood low at 27 days and 26 days in FY2021 (Provisional) as against 25 days and 30 days in FY2020, respectively. However, the bank limits utilization stood high at 98% in the last six months ending May,2021. Acuité believes that the working capital requirements will continue to remain moderate over the medium term on account of low GCA days.

Weaknesses

• **Below average financial risk profile**

Company's financial risk profile remained below average marked by low net worth, high gearing and average debt protection metrics. The net worth of the company stood at Rs.3.17 Crore as on 31 March 2021 (Provisional) as against Rs.2.79 Crore as on 31 March 2020. The gearing level (debt-equity) stood at 3.49 times as on 31 March 2021 (Provisional) as against 3.31 times in 31 March 2020. The total debt of Rs.11.07 Crore as on 31 March 2021 (Provisional) consists of secured loan of Rs.2.07 Crore, unsecured loan of Rs.1.67 Crore and working capital borrowings of Rs.7.33 Crore. The interest coverage ratio (ICR) stood at 1.54 times in FY2021 (Provisional) as against 1.43 times in FY2020. NCA/TD (Net Cash Accruals to Total Debt) ratio stood low at 0.04 times in FY2021 (Provisional) as against 0.03 times in FY2020. DSCR stood at 1.54 times in FY2021

(Provisional) as against 1.34 times in FY2020. Debt-EBITDA stood at 9.15 times in FY2021 (Provisional) as against 6.94 times in FY2020.

• 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.

Rating sensitivity

- The company have stretched liquidity as the NCA is insufficient for future repayment obligation. The directors needs to infuse unsecured loan to pay the remaining loan.

Material Covenant

None

Liquidity position: Strong

The Company has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.43 Crore in FY2021 (Provisional). The cash accruals of the company are estimated to remain in the range of around Rs.0.50 Crore to Rs.0.67 Crore during FY2022-24 against CPLTD of around Rs.0.60 Crore each year for the same period. Company's working capital operations are moderate marked by gross current asset (GCA) days of 58 days in FY2021 (Provisional). As a result, the bank limit utilization stood high at 98% in the last six months ending May, 2021. Company maintains unencumbered cash and bank balances of Rs.0.13 Crore as on 31 March 2021 (Provisional). The current ratio stands at 1.74 times as on 31 March 2021 (Provisional).

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.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	89.02	81.94
PAT	Rs. Cr.	0.39	0.28
PAT Margin	(%)	0.43	0.34
Total Debt/Tangible Net Worth	Times	3.49	3.31
PBDIT/Interest	Times	1.54	1.43

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

Not Applicable

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/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
26-June-2020	Cash Credit	Long term	7.50	ACUITE B+/Stable (Reaffirmed)
	Term Loan	Long term	0.67	ACUITE B+/Stable (Assigned)
06-May-2020	Cash Credit	Long term	7.50	ACUITE B+ (Indicative)
27-February-2019	Cash Credit	Long term	7.50	ACUITE B+/Stable (Reaffirmed)
24-January-2019	Cash Credit	Long term	7.00	ACUITE B+/Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan I	May-2020	7.60%	May-2022	0.44	ACUITE B+/Stable (Reaffirmed)
Term Loan II	June-2020	7.50	June-2024	1.49	ACUITE B+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B+/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE B+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel:022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Aditya Singh Senior Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuite.in	

About Acuité Ratings & Research:

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