

Press Release

Al-Safa Industries Private Limited

September 19, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.67	ACUITE B+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	9.67	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

Rationale for reaffirmation

The rating has been reaffirmed on account of narrow margins, below average financial risk profile and high customer concentration risk. Despite improvement in operating income over the years the company's low margins have restricted cash accruals which is affecting liquidity and financial risk profile of the company. Low net cash accruals along with high limit utilization has led to stretched liquidity. Financial risk profile is below average with low net worth and average debt protection metrics which have not improved despite improving revenues. Going forward the profitability margins and liquidity position will remain key rating sensitivity factors.

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

Acuite 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 FY2022 (Provisional) marked by Gross Current Assets (GCA) of 53 days in FY2022 (Provisional) as against 58 days in FY2021. The inventory and debtor levels stood low at 23 days and 18 days in FY2022 (Provisional) as against 27 days and 26 days in FY 2021, respectively. However, the bank limits utilization stood high at 97.93% in the last fourteen months ending June,2022. The team 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. 3.46 Crore as on 31 March 2022 (Provisional) as against Rs. 3.15 Crore as on 31 March 2021. The gearing level (debt-equity) stood at 3.05 times as on 31 March 2022 (Provisional) as against 3.51 times in 31 March 2021. The total debt of Rs. 10.54 Crore as on 31 March 2022 (Provisional) consists of secured loan of Rs. 1.64 Crore, unsecured loan of Rs. 1.67 Crore and working capital borrowings of Rs.7.23 Crore. The interest coverage ratio (ICR) stood at 1.52 times in FY 2022 (Provisional) as against 1.53 times in FY 2021. NCA/TD (Net Cash Accruals to Total Debt) ratio stood low at 0.03 times in FY2022 (Provisional) as against 0.04 times in FY 2021. DSCR stood low at 1.40 times in FY2022 (Provisional) as against 1.52 times in FY 2021. Debt-EBITDA moderated but stood high at 8.37 times in FY 2022 (Provisional) as against 9.23 times in FY 2021.

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 ~83 percent of the total revenue of the company. In FY 2022, these 2 specific companies contributed 83.78% of the total revenue.

Rating Sensitivities

- Profitability Margins.
- Liquidity position.

Material covenants

None.

Liquidity Position

Stretched

The Company has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.33 Crore in FY 2022 (Provisional). The cash accruals of the company are estimated to remain in the range of around Rs.0.58 Crore to Rs.0.66 Crore during FY 2023-24 against CPLTD of around Rs.0.39 Crore each year for the same period. Company's working capital operations are moderate marked by gross current asset (GCA) days of 53 days in FY 2022 (Provisional). As a result, the bank limit utilization stood high at 97.93% in the last fourteen months ending June,2022. Company maintains unencumbered cash and bank balances of Rs.0.21 Crore as on 31 March 2022 (Provisional). The current ratio stands at 1.89 times as on 31 March 2022 (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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	98.17	89.02
PAT	Rs. Cr.	0.30	0.36
PAT Margin	(%)	0.31	0.41
Total Debt/Tangible Net Worth	Times	3.05	3.51
PBDIT/Interest	Times	1.52	1.53

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

None

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2021	Term Loan	Long Term	1.49	ACUITE B+ Stable (Assigned)
	Proposed Bank Facility	Long Term	0.24	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	0.44	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	7.50	ACUITE B+ Stable (Reaffirmed)
26 Jun 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+ (Issuer not co-operating*)
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 Sep 2017	Cash Credit	Long Term	4.00	ACUITE B+ (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	3.00	ACUITE B+ (Issuer not co-operating*)
02 Aug 2016	Cash Credit	Long Term	4.00	ACUITE B+ Stable (Assigned)
	Proposed Long Term Loan	Long Term	3.00	ACUITE B+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE B+ Stable Reaffirmed
Central Bank of India	Not Applicable	Term Loan	31-05-2020	7.60	31-05-2022	0.44	ACUITE B+ Stable Reaffirmed
Central Bank of India	Not Applicable	Term Loan	30-06-2020	7.50	30-06-2024	1.49	ACUITE B+ Stable Reaffirmed

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About Acuité Ratings & Research

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