

Press Release

ABHAY SOLVENTS PRIVATE LIMITED

November 20, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 24.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (**read as SMERA BB**) on the Rs. 24.00 crore bank facilities of ABHAY SOLVENTS PRIVATE LIMITED. The outlook is '**Stable**'.

Abhay Solvents Private Limited (ASPL) is a Karnataka-based company, incorporated in 1993 by Mr. Abhay Kumar Mehta, Mr. Praveen Kumar Mehta and others. The company is engaged in the extraction (400 tons per day) and refining (80 tons per day) of rice bran oil.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

ASPL was incorporated in 1993. The Directors, Mr. Abhay Kumar Mehta, Mr. Praveen Kumar Mehta and others have more than two decades of experience in the edible oil industry.

- **Growth in revenues**

The company registered consistent year-on-year revenue growth during the period under study. The revenue increased to Rs. 180.82 crore in FY2017 (Provisional), from Rs. 136.16 crore in FY2016 and Rs. 110.86 crore in FY2015 on account of addition of new customers and increase in sales to existing customers.

- **Moderate financial risk profile**

The financial risk profile has been moderate marked by net worth of Rs. 19.55 crore as on 31 March, 2017 (Provisional) as against Rs.18.41 crore as on 31 March, 2016. The networth includes unsecured loans of Rs. 3.21 crore in FY2017 (Provisional) treated as quasi equity. The gearing (debt-to-equity ratio) improved to 0.98 times as on 31 March, 2017 (Provisional) compared to 1.55 times in the previous year. The total debt of Rs. 22.73 crore, consists of working capital borrowings of Rs. 17.49 crore, term loans of Rs. 4.04 crore, and Rs. 1.20 crore of unsecured loans from promoters as on 31 March, 2017. The total outstanding liabilities to tangible networth (TOL/TNW) improved to 1.77 times in FY2017 (Provisional) from 2.28 times in the previous year. The interest coverage ratio (ICR) improved to 2.25 times in FY2017 (Provisional) from 1.99 times in FY2016. In FY2017, the net cash accruals to total debt (NCA/TD) stood low at 0.08 times.

- **Comfortable working capital cycle**

ASPL has comfortable working capital cycle marked by gross current assets (GCA) of 76 days in FY2017 as against 97 days in FY2016. This is on account of inventory holding of 34 days in FY2017 as against 46 days in FY2016 and debtor days of 31 days in FY2017 as against 23 days in FY2016. The average cash credit utilisation stood at 75 per cent for the six months ended 30 November, 2017.

Weaknesses

- **Decline in margins**

ASPL operates in a highly fragmented industry wherein the presence of large number of players in the unorganised sector limits its bargaining power with customers. The operating margins (EBITDA) declined

from 3.30 per cent in FY2016 to 2.35 per cent in FY2017 (Provisional). The Profit after tax margins (PAT) fell to 0.47 per cent in FY2017 (Provisional) from 0.79 per cent in FY2016. The margins have declined due to increase in raw material cost as a percentage of sales.

• Agro climatic risks

Rice bran which is a by-product of rice milling, is the main raw material and is highly dependent upon the monsoon. Thus, inadequate rainfall may affect the availability of bran in adverse weather conditions.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company.

Outlook: Stable

SMERA believes that ASPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of sustained growth in revenue and operating profitability while improving the financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue and profitability, deterioration in the financial risk profile or elongation in working capital cycle.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the company reported profit after tax (PAT) of Rs. 0.84 crore on operating income of Rs. 180.82 crore, compared with PAT of Rs. 1.08 crore on operating income of Rs. 136.16 crore in FY2015-16. The net worth stood at Rs.23.11 crore as on 31 March, 2017 (Provisional) against Rs. 18.41 crore a year earlier. The net worth of Rs. 23.11 crore in FY2017 includes quasi equity of Rs.3.21 crore

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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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 Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Aug-2016	Cash Credit	Long Term	INR 20	SMERA BB / Stable
	Term Loan	Long Term	INR 4	SMERA BB / Stable

*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	20.00	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BB / Stable

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