

Press Release

Abhay Solvents Private Limited

May 08, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 24.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 24.00 crore bank facilities of Abhay Solvent Private Limited (ASPL). The outlook is '**Stable**'.

The upgrade reflects sustained improvement in financial risk profile and comfortable liquidity position reflected by low bank limit utilization. These strengths are partially offset by uneven revenue and profitability metrics.

Incorporated in 1993, ASPL is a Karnataka-based company promoted Mr. Abhay Kumar Mehta and Mr. Praveen Kumar Mehta among others. The company is engaged in the extraction (300 tons per day) and refining (80 tons per day) of rice bran oil.

Analytical Approach

Acuité has considered a standalone approach on ASPL's business and financial risk profile for arriving at the rating.

Key Rating Drivers

Strengths

- **Established track record and experienced promoters**

Incorporated in 1993, ASPL has an established track record in solvent extraction and refining business. The Directors, Mr. Abhay Kumar Mehta, Mr. Praveen Kumar Mehta have more than two decades of experience in the edible oil industry resulting in established relationship with reputed clientele such as Godrej Agrovet Limited, Kerala Feeds, Karnataka Co-Operative Oil Seeds Growers Federation Limited, Marico Limited and Suguna Poultry Farm Bangalore among others.

- **Comfortable financial risk profile**

ASPL's financial risk is comfortable marked by modest net worth, comfortable gearing and healthy debt protection metrics. The net worth improved to Rs.26.28 crore as on March 31, 2018 from Rs.22.46 crore in the previous year on account of steady net cash accruals and infusion of unsecured loans by the promoter. Acuite has considered Rs 5.90 Crore of unsecured loans from promoter as quasi equity backed by undertaking to maintain the same in the medium term. The gearing remained comfortable at 0.67 times as on March 31st, 2018 as against 1.03 times in the previous year. The gearing is expected to remain comfortable in the absence of any debt-funded capex plan in the medium term. The total outside liabilities against total net worth stood at 1.50 times as on March 31, 2018 as against 1.96 times as on March 31st, 2017. The debt protection metrics remained healthy with interest coverage ratio of 2.06 times as on March 31, 2018 as against 2.33 times in the previous year.

- **Moderate working capital nature of operations**

ASPL working capital cycle is comfortable marked by gross current assets (GCA) of 83 days in FY2018 as against 77 days in FY2017. The GCA primarily comprises of inventory holding of 42 days in FY2018 as against 34 days in FY2017 and debtor days of 32 days in FY2017 as against 31 days in FY2016. The average cash credit utilisation remained comfortable at 61 per cent for the six months ended January, 2019.

Weaknesses

- **Uneven revenue profile and low profitability**

ASPL's operating revenue declined to Rs.158.56 crore in FY'2018 as against Rs. 180.50 crore in FY'2017. The decline in revenue was on account of lower realization from de-oiled rice bran sales and implementation of GST. However, the operating revenue improved to Rs 203.00 Crore (provisional) in FY2018-2019 due to better realization and diversification into retail sale of rice bran oil. Going forward, the company's ability to sustain revenue growth will remain a key concern monitorable.

- **Intense competition and agro climatic risk**

ASPL faces intense competition due to fragmented nature of the edible oil industry and easy availability of substitutes with different varieties of edible oils present in the market. Further, the operation is exposed to agro-climatic risks which can cause volatility in raw material prices and impact the profitability of the unit.

Liquidity Profile

ASPL has adequate liquidity. The company generated cash accruals of Rs.2.33 crore in FY2017-18, while it's maturing debt obligations stood at Rs.1.34 crore over the same period. The cash accruals of the company are estimated to remain comfortable to meets its repayment obligations during 2019-21. The cash credit limit in the company remains utilised at 61 percent during the last 6 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.0.07 crore as on March 31, 2018. The current ratio of the company stands modest at 1.40 times as on March 31, 2018.

Outlook: Stable

Acuité believes that ASPL will maintain 'Stable' outlook from its experienced management. The outlook may be revised to 'Positive' in case the company registers growth in revenues and profit margins while maintaining efficient working capital management. The outlook may be revised to 'Negative' if revenue profile declines because of any adverse movement in the price of raw material or financial risk profile deteriorates on account of debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	158.56	180.50	136.16
EBITDA	Rs. Cr.	3.70	3.95	4.49
PAT	Rs. Cr.	1.12	0.55	1.08
EBITDA Margin	(%)	2.34	2.19	3.30
PAT Margin	(%)	0.70	0.30	0.79
ROCE	(%)	6.02	7.09	8.44
Total Debt/Tangible Net Worth	Times	0.67	1.03	1.40
PBDIT/Interest	Times	2.06	2.33	1.99
Total Debt/PBDIT	Times	4.46	5.13	5.83
Gross Current Assets (Days)	Days	83	77	98

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Aug 19, 2016	Cash Credit	Long Term	20.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BB / Stable (Assigned)
Nov 20, 2017	Cash Credit	Long Term	20.00	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BB / Stable (Reaffirmed)
Jan 11, 2019	Cash Credit	Long Term	20.00	ACUITE BB Issuer not co-operating*
	Term Loan	Long Term	4.00	ACUITE BB Issuer not co-operating*

*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	ACUITE BB+/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Upgraded)

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About Acuité Ratings & Research:

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