

Press Release

Aradhya Agro Industries

April 26, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 15.00 Cr bank facilities of Aradhya Agro Industries (AAI). The outlook is '**Stable**'.

The rating reaffirmation continues to take into account the extensive experience of promoters in the rice milling business and the established relationship with its customer base. The rating, albeit remains constrained by its working capital intensive nature of operations, highly competitive and fragmented industry and inherent risks of being a partnership firm.

AAI is a Karnataka based partnership firm established in May 2014. The firm was previously established as proprietorship firm and was later converted to a partnership firm in 2015. Mr. I.S. Prasanna, Mr. I.P. Sheela and Mr. I.P. Prasheel are the partners. The firm is engaged in the business of rice milling and trading. The manufacturing facility is located at Davangere. The firm has an installed capacity of 8 tons per hour.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of AAI to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of promoters in the rice milling business**

The firm is led by Mr. I.S. Prasanna (Managing Partner) and his sons are other partner's namely Mr. I.P. Prasheel Aradhya, Mr. I.P. Prajwal Aradhya. The promoter Mr. I.S. Prasanna possesses nearly three decades of experience in the rice milling industry through other firms. The extensive experience of the promoter supported by experience has enabled the firm to forge healthy relationships with customers for repeated business. The AAI has reported operating income of Rs.27.10 Cr in FY2020 as against Rs.28.93 Cr in FY2019. The revenues in FY2021 is expected to be around Rs.23 Cr. Acuite believes that the firm will continue to benefit from its experienced management and established relationships with its customers in the medium term.

- Stable and Favourable demand prospects for rice**

The demand prospects of the rice industry are likely to remain good as rice is a staple food grain and India is the world's second largest producer and consumer of rice.

Weaknesses

- Below-average financial risk profile**

The financial risk profile of the firm is below-average marked by modest net worth, high gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Net worth stood modest at Rs.6.14 Cr as on 31 March, 2020 vis-à-vis Rs.5.93 Cr as on 31 March, 2019. The gearing (debt-to-equity) and TOL/TNW stood high at 2.09 times and 2.34 times as on 31 March, 2020 vis-à-vis at 2.67 times and 2.74 times as on 31 March, 2019. The debt protection metrics; interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.90 times and 0.11 times, respectively in FY2020 vis-à-vis 1.86 times and 0.09 times respectively FY2019. Acuite believes that the financial risk profile is expected be at similar levels over the medium term.

• Working capital intensive nature of operations

AAI operations are working capital intensive marked by its high gross current assets (GCA) at 171-254 days during last 3 years ended March 31, 2020. GCA majorly comprises of high inventory holding due to seasonality and stood in the range of 127-201 days and debtor's cycle is stood in the range of 44-73 days during last 3 years ended with FY2020. Its creditor days stood between 6-27 days during last 3 years ended with FY2020. The AAI procures the paddy in the peak season and keeps it for ageing for value realisation and it purchases paddy mainly against spot payment and continuous procurement of paddy results in high utilisation of its bank lines at around 93 per cent in the past six months through March 2020. Acuite believes that AAI's working capital cycle continues to be at similar levels over the medium term on account of the inventory levels maintained by the entity to cater to spot orders.

• Highly competitive and fragmented industry affected by agro climatic risks

The agro commodity (rice) industry is highly competitive with multiple players coupled with low entry barriers resulting into intense competition from both the organised as well as unorganised players. Paddy which is the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of paddy. The rice milling business remains working capital intensive in nature, with high requirement to stock paddy in season majorly on cash and carry business leading to a relatively higher procurement cost; also the profitability is partly susceptible to the volatile paddy costs and Government regulation of minimum support price (MSP) of paddy besides prone to monsoon and availability of paddy. AAI is further exposed to the risks inherent to a partnership firm; including the capital withdrawal risk, any substantial cash withdrawals by the partners are likely to have an adverse impact on the capital structure.

Rating Sensitivity

- Increase in scale of operations along with profitability margins
- Improvement in capital structure.

Liquidity Position: Stretched

AAI has stretched liquidity marked by tightly matching net cash accruals to its maturing debt obligations and working capital intensive nature of operations. It generated cash accruals of Rs.1.47 Cr in FY2020. The cash accruals of the entity are estimated to remain in the range of around Rs.1.00 Cr to Rs.1.50 Cr during FY2021-23 against repayment obligations of Rs.1.00 to 1.50 Cr for the same period. If any shortfall was met through working capital term loan of Rs.2.00 Cr and working capital demand loan of Rs. 0.85 Cr availed by the company during under Covid-19 moratorium period. The average fund-based working capital utilization stood at 93 percent for the past 6 months ended March 2021. The firm has maintained low unencumbered cash and bank balances Rs.0.08 Cr and the current ratio stood at 1.25 times as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accrual and repayments.

Outlook: Stable

Acuite believes that AAI will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenue and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case AAI registers lower than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure or further withdrawal of capital by partners leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	27.10	28.93
PAT	Rs. Cr.	0.32	0.14
PAT Margin	(%)	1.18	0.48
Total Debt/Tangible Net Worth	Times	2.09	2.67
PBDIT/Interest	Times	1.90	1.86

Status of non-cooperation with previous CRA

Not Applicable

Material Covenants

None

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>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-May-2020	Cash Credit	Long Term	8.50	ACUITE B+ Issuer not co-operating*
	Term Loan	Long Term	1.60	ACUITE B+ Issuer not co-operating*
	Term Loan	Long Term	1.25	ACUITE B+ Issuer not co-operating*
	Proposed cash Credit	Long Term	3.65	ACUITE B+ Issuer not co-operating*
06-March-2019	Cash Credit	Long Term	8.50	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	1.60	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	1.25	ACUITE B+ / Stable (Reaffirmed)
	Proposed cash Credit	Long Term	3.65	ACUITE B+ / Stable (Reaffirmed)
13-December-2017	Cash Credit	Long Term	6.50	ACUITE B+ / Stable (Upgraded)
	Term Loan	Long Term	3.07	ACUITE B+ / Stable (Upgraded)
	Term Loan	Long Term	1.49	ACUITE B+ / Stable (Upgraded)
	Proposed cash Credit	Long Term	0.49	ACUITE B+ / Stable (Upgraded)

*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	8.50*	ACUITE B+ / Stable (Reaffirmed)
Term Loan	July 2015	Not Available	March 2022	0.35	ACUITE B+ / Stable (Reaffirmed)
Term Loan	Feb 2017	Not Available	March 2022	0.25	ACUITE B+ / Stable (Reaffirmed)

Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+ / Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	0.85	ACUITE B+ / Stable (Reaffirmed)
Proposed Long Term facility	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE B+ / Stable (Reaffirmed)

ODBD sublimit Rs.1.50 Cr

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.