

Press Release

Union Agrotech India Private Limited (UAIPL)

05 February, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 15.82 Cr.
Long Term Rating	SMERA BB-/Stable (Reaffirmed)

*Refer annexure for details

SMERA has reaffirmed the long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the above mentioned bank facilities of Union Agrotech India Private Limited (UAIPL). The outlook is '**Stable**'.

UAIPL, established in 2010 commenced commercial operations in 2013. The company is engaged in the milling, processing and trading of agro based product i.e. wheat flour and has an installed capacity of 340 tons per day. The company procures raw materials from the local grain market and sells its product pan India under the 'Kesar' brand name.

Key rating drivers

Strengths

Experienced promoters: The directors Mr. Ankur Jain, Mr. Anurag Jain and Mrs. Rashmi Jain have extensive experience of two decades in the food industry.

SMERA believes that UAIPL will continue to benefit from its established position in the market and experienced management.

Moderate operating margin: The EBITDA margin has remained moderate at 4.23 per cent in FY2017 as against 4.88 per cent in FY2016. However, the company incurred a PAT loss due to deferred tax expenses paid in FY2017.

Comfortable working capital cycle: The working capital cycle remained comfortable at 53 days in FY2016-17. The GCA days stood at 74 days in FY2016-17. Moreover, as informed by the banker, the utilisation of working capital limits is around 70 per cent.

Weaknesses

Uneven revenue trend: The revenue has been uneven during the period under study at Rs.55.75 crore in FY2017 as against Rs.71.74 crore in FY2016 and Rs. 58.87 crore in FY2015. This was mainly on account of reduction of import tax rate on wheat to 10 percent from 25 percent in December 2016 to help lower domestic wheat prices and keep food inflation under control. The permission for duty-free imports encouraged private traders to buy more wheat in mid-2016 to meet a supply shortfall left by two years of drought thus impacting order flows especially from the South. However, the company reported operating income of Rs. 60 crore from April, 2017 to December, 2017.

Average financial risk profile: UAIPL has an average financial profile marked by decline in

networth to Rs.4.23 crore as on 31 March, 2017 from Rs.5.58 crore in the previous year. This was mainly on account of writing off of capital reserve of Rs.0.72 crore received against the capital subsidy for machinery purchase assets. The gearing stood at 2.80 as on 31 March, 2017 as against 2.42 times in the previous year on account of repayment of unsecured loan in the books treated as quasi equity. The total debt of Rs. 11.85 crore as on 31 March, 2017 majorly comprises cash credit facility of Rs. 8.31 crore and term loan of Rs.3.54 crore. The Interest Coverage Ratio remains moderate at 1.63 times in FY2017 and 2.32 times in FY2016. The TOL/TNW stood at 2.94 times as on 31 March, 2017 as against 2.56 times as on 31 March, 2016. Going forward, the gearing is expected to moderately increase with the company availing a further short term working capital facility.

Exposure to agro climatic risks: Since the company is engaged in the processing of agro based products, the profit margins are exposed to agro climatic risks.

Highly competitive and fragmented industry: The agro processing industry is highly competitive and fragmented with several organised and unorganised players. The intense competition and low value addition in the agro processing industry results in low operating margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of UAIPL to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on UAIPL will remain stable over the medium term on account of the promoter's extensive experience in the agricultural industry. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant decline in cash accruals or deterioration of its financial risk profile due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	55.75	71.74	58.87
EBITDA	Rs. Cr.	2.36	3.50	2.15
PAT	Rs. Cr.	(0.12)	0.65	(0.67)
EBITDA Margin	(%)	4.23	4.88	3.65
PAT Margin	(%)	(0.21)	0.91	(1.14)
ROCE	(%)	8.80	13.03	4.81
Total Debt/Tangible Net Worth	Times	2.80	2.42	1.63
PBDIT/Interest	Times	1.63	2.32	1.47
Total Debt/PBDIT	Times	4.95	3.84	4.20
Gross Current Assets (Days)	Days	74	68	44

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs .Crore)	Ratings/Outlook
10-Nov, 2016	Cash Credit	Long Term	9.00	SMERA BB-/ Stable (Assigned)
	Term Loan	Long Term	4.20	SMERA BB-/ Stable (Assigned)
	Proposed Long Term	Long Term	2.62	SMERA BB-/ Stable (Assigned)

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	12.00	SMERA BB-/ Stable (Reaffirmed)
Term Loan	NA	NA	NA	2.68	SMERA BB-/ Stable (Reaffirmed)
Proposed Long Term	NA	NA	NA	1.14	SMERA BB-/ Stable (Reaffirmed)

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ABOUT SMERA

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