

Press Release

UNION AGROTECH INDIA PRIVATE LIMITED

February 25, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 15.82 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 15.82 crore bank facilities of UNION AGROTECH INDIA PRIVATE LIMITED (UAPL). The outlook is '**Stable**'.

Rating downgrade reflects deterioration in profitability and below average net worth. Profit after Tax (PAT) margins has been on a declining trend marked by 0.32 per cent in FY2018, (0.21) per cent in FY2017 and 0.91 per cent in FY2016. Further, operating margins have also been on a declining trend marked by 3.01 per cent in FY2018, 4.23 per cent in FY2017 and 4.88 per cent in FY2016. Net worth stood below average at Rs.4.48 crore in FY2018 as against Rs.4.23 crore in FY2017. However, the rating is supported by experienced management, and comfortable working capital operations of the company.

UAPL, 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of UAPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

UAPL commenced operations from 2013. The company is promoted by its Managing Director, Mr. Ankur Jain along with other Directors, Mrs. Rashmi Jain and Mr. Anurag Jain who possess experience of over a decade in agriculture industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuite believes that UAPL will continue to benefit from its experienced management and established relationships with customers.

• Comfortable working capital operations

UAPL has comfortable working capital operations marked by Gross Current Assets (GCA) of 55 days in FY2018 as against 73 days in FY2017. The inventory and debtor levels stood at 15 and 31 days in FY2018 as against 22 and 32 days in FY2017, respectively. As a result, the average utilisation of bank limits stood at ~80 to 90 percent in the last six months ending January, 2019. Acuite believes that the working capital operations will continue to remain comfortable over the medium term on account of timely payment from the customers and to the suppliers.

Weaknesses

• Average financial risk profile

The financial risk profile is average marked by below average net worth and moderate debt protection measures and high gearing. The net worth stood at Rs.4.48 crore as on 31 March, 2018 as against Rs.4.23 crore as on 31 March, 2017. The gearing stood high at 2.66 times as on March 31, 2018 as against 2.80 times as on March 31, 2017. The total debt of Rs.11.90 crore includes term loan of Rs.2.40 crore, unsecured loan of Rs.0.21 crore and working capital borrowing of Rs.9.29 crore as on 31 March, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.73 times as on 31 March, 2018 as against 2.94 times as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 1.61 times in FY2018 as against 1.63 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.07 times as on 31 March, 2018 as against 0.06 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.58 times in FY2018 as against 1.50 times in FY2017.

• 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 below average operating margins.

Liquidity Position:

UAPL has average liquidity marked by below average net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.0.86-1.97 crore during the last three years through 2017-18. The cash accruals of the company are estimated to remain around Rs.0.95-1.04 crore during 2019-21. The company has comfortable working capital operations as marked by gross current asset (GCA) days of 55 in FY 2018. However, reliance on working capital borrowings is higher. The cash credit limit of the company remains utilised at around 80 to 90 percent during the last 6 months period ended January, 2019. The company maintains unencumbered cash and bank balances of Rs.2.13 crore as on March 31, 2018. The current ratio of the company stands moderate at 1.10 times as on March 31, 2018.

Outlook: Stable

Acuite believes that UAPL will maintain 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in UAPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	77.25	55.75	71.74
EBITDA	Rs. Cr.	2.33	2.36	3.50
PAT	Rs. Cr.	0.25	-0.12	0.65
EBITDA Margin	(%)	3.01	4.23	4.88
PAT Margin	(%)	0.32	-0.21	0.91
ROCE	(%)	10.81	8.80	23.22
Total Debt/Tangible Net Worth	Times	2.66	2.80	2.76
PBDIT/Interest	Times	1.61	1.63	2.32
Total Debt/PBDIT	Times	5.02	4.95	3.98
Gross Current Assets (Days)	Days	55	73	68

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
05-Feb-2018	Cash Credit	Long Term	12.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	2.68	ACUITE BB- / Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.14	ACUITE BB- / Stable (Reaffirmed)
10-Nov-2016	Cash Credit	Long Term	9.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	4.20	ACUITE BB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.62	ACUITE BB- / Stable (Assigned)

*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	12.00	ACUITE B+ / Stable (Downgraded from ACUITEBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B+ / Stable (Downgraded from ACUITEBB-/Stable)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.32	ACUITE B+ / Stable (Downgraded from ACUITEBB-/Stable)

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About Acuite Ratings & Research:

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