

Press Release

Shree Ram Agro Industries

September 30, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.14.50 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.14.50 crore bank facilities of Shree Ram Agro Industries (SRAI). The outlook is '**Stable**'.

Khandawa, Madhya Pradesh based Shree Ram Agro Industries (SRAI) is a partnership firm set up by Mr. Pramod Kumar, Mrs. Kiran, Mrs. Priti, Mr. Abhishek and Mr. Amol Kumar in the year 1997. The firm is engaged in manufacturing of cotton bales from raw cotton and manufacturing of by-products, i.e. seeds - cottonseed oil and cakes and further the firm is also engaged in trading of various products. SRAI supplies cotton bales to textile mills, supplies cottonseed oils to refinery plants, cottonseed oil cake to traders, animal keepers and dairy farms and supplies oilseed gad to soap factories. The firm has installed capacity for ginning of 30,000 Metric Ton and the utilization is around 60-70%.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SRAI to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

Founded in the year 1997, SRAI has been engaged in processing and trading of raw cotton, cottonseed oil and cakes since its inception; the firm has been managed by Mr. Pramod Kumar and his family. The established presence of the firm and extensive experience of the management in the line of business has enabled them to establish a strong relationship with its customers and suppliers. The firm has associated with its existing customers for more than two decades, which has helped it secure repeat orders.

Acuité believes that the firm's growth prospects will be supported by management's extensive experience in the cotton industry.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of the firm is below average, marked by modest net worth, leveraged capital structure and moderate debt projection metrics. The net worth of the firm stood modest at Rs.4.42 crore as on 31 March 2020 (provisional). The gearing (debt-equity) improved to 3.38 times as on 31 March 2020 (provisional) as against 3.74 times in previous year nonetheless remained high. The total debt of Rs.14.94 crore as on 31 March 2020 (provisional) includes working capital of Rs.11.78 crore and unsecured loans of Rs.3.16 crore. The net cash accrual to total debt (NCA/TD) and interest coverage ratio for FY2020 (provisional) were at 0.01 and 1.15 times, respectively.

Acuité believes that the financial risk profile is expected to remain at similar levels over the medium term.

- **Working capital intensive nature of operations**

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 110 days in FY2020 (provisional) as against 111 days in FY2019. These high GCA days emanates from high inventory days of 87 days for FY2020 (provisional) as compared to 95 days for FY2019. This has led to higher reliance on the working capital borrowings, for which the utilization was more than 95 percent for the past six months ended August 2020.

Acuité believes that the firm's operations are expected to remain working capital intensive in the medium term.

• **Agro Climatic Risks and competitive and fragmented industry**

Cotton, which is the main raw material required for ginning, is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of raw cotton in adverse weather conditions. The cotton industry is highly competitive with multiple players coupled with low entry barriers resulting in intense competition from both the organized as well as unorganized players.

Liquidity position: Adequate

SRAI has an adequate liquidity position marked by cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.22-0.24 crore during the last three years through 2019-2020 to nil maturing debt obligations. The operations are working capital intensive marked by Gross Current Asset (GCA) of 110 days in FY2020 (provisional) compared to 111 days in FY2019. The average working capital limits utilization stood at more than 95 percent for the past six months ended August 2020. The current ratio stood moderate at 1.51 times as on 31 March, 2020 (provisional). Acuité believes that going forward; the liquidity position of the firm will continue to remain adequate in the medium term.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Any deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuité believes SRAI will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established operations and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected cash accruals on the back of sustained growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	68.74	61.51
PAT	Rs. Cr.	0.15	0.13
PAT Margin	(%)	0.22	0.21
Total Debt/Tangible Net Worth	Times	3.38	3.74
PBDIT/Interest	Times	1.15	1.13

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
23-July-2019	Cash Credit	Long Term	12.00	ACUITE BB- Issuer not co-operating*
	Proposed Cash Credit	Long Term	2.50	ACUITE BB- Issuer not co-operating*
24-April-2018	Cash Credit	Long Term	12.00	ACUITE BB- Issuer not co-operating*
	Proposed Cash Credit	Long Term	2.50	ACUITE BB- Issuer not co-operating*
09-March-2017	Cash Credit	Long Term	12.00	ACUITE BB-/Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.50	ACUITE BB-/Stable (Assigned)

*The issuer did not co-operate; based on best available information

*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	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB-/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate & Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sruthi Talanki Rating Analyst - Rating Operations Tel: 040-40042327 sruthi.talanki@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 6,000 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.