

Press Release

AGRAWAL ASSOCIATES

December 13, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.80 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 6.80 crore bank facilities of AGRAWAL ASSOCIATES. The outlook is '**Stable**'.

Agrawal Associates, a proprietorship firm established in 2002 by Mr. Mukesh Agrawal was converted to a partnership firm by Mr Agrawal and family in 2016. The Madhya Pradesh-based firm is engaged in the processing and trading of agro products such as chick peas, soya bean and other products.

Key Rating Drivers

Strengths

- **Experienced management**

Mr. Mukesh Agrawal has more than a decade of experience in the aforementioned line of business.

- **Moderate working capital intensity**

The GCA days stood at 58 in FY2017 compared to 38 days in FY2016. The debtors stood at 32 days with inventory of 26 days. The average cash credit utilisation has been moderate at around 73 per cent from April 2017 to August, 2017.

Weaknesses

- **Modest scale of operations and low profitability**

The scale of operations is small evident from the revenue of Rs.43.36 crore in FY2017 compared to Rs.40.34 crore in FY2016. As informed by the management, the firm registered revenue of around Rs.37 crore from April to September 2017 (Provisional). The profitability margins are low owing to the trading nature of business. The EBITDA margins stood low at 2.01 per cent in FY2017 and 1.79 per cent in the previous year. The PAT margin rose to 1.12 per cent in FY2017 from 0.70 per cent in the previous year.

- **Below average financial profile**

The financial risk profile is below average marked by low net worth of Rs.1.64 crore as on 31 March, 2017 as against Rs.1.18 crore in the previous year. The gearing stood at a high of 2.91 times for FY2017 as compared to 4.73 times in the previous year. The TOL/TNW also stood high at 4.11 times in FY2017 and 5.87 times in FY2016. Further, loans and advances have been extended to relatives of about Rs.1.16 crore (~71 per cent of the networth of Rs.1.64 crore) as on 31 March, 2017. The Interest coverage ratio stood at 2.11 times as on FY2017 compared to 1.82 times in the previous year.

- **Highly fragmented and competitive industry**

The firm is exposed to intense competition in the agro industry.

- **Risk of capital withdrawal**

The firm is exposed to risk of capital withdrawal considering its partnership constitution. There have been instances of capital withdrawal last year.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of AA.

Outlook: Stable

SMERA believes that the outlook of AA will remain stable owing to its experienced management. The outlook may be revised to 'Positive' if the firm achieves sustained growth in revenue and profit margins with improvement in its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of deterioration of capital structure or steep decline in revenue and profit margins.

About the Rated Entity - Key Financials

For FY2016-17, AA reported net profit of Rs. 0.49 crore on operating income of Rs.43.36 crore compared with net profit of Rs.0.28 crore on operating income of Rs.40.34 crore for FY2015-16.

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

none

Any other information

none

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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>

Rating History (Upto last three years)

Not Applicable

*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	6.80	SMERA B+ / Stable

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ABOUT SMERA

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