

Press Release

Agrawal Associates

January 31, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 6.80 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Downgraded from ACUITEB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of „**ACUITE B**“ (read as **ACUITE B**) from **ACUITE B+** (read as **ACUITE B plus**) to the Rs. 6.80 crore bank facilities of Agrawal Associates (AA). The outlook is **'Stable'**.

Rating downgrade reflects deteriorating business risk profile and more-than-expected decline in profitability. Profit after Tax (PAT) has declined sharply to Rs.0.02 crores in FY2018 from Rs.0.49 crores in FY2017 mainly on account of fluctuations in prices of agro commodities. Further, operating margins had also declined to 0.94 per cent in FY2018 from 2.01 per cent in FY2017. However, the rating is supported by experienced management, and comfortable working capital operations of the firm.

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AA to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

AA commenced operations from 2002. The firm is promoted by Mr. Mukesh Agrawal who has experience of over a decade in agriculture industry. The extensive experience has enabled the firm to forge healthy relationships with customers and suppliers. Acuité believes that AA will continue to benefit from its experienced management and established relationships with customers.

- **Comfortable working capital operations**

The firm has comfortable working capital cycle marked by Gross Current Assets (GCA) of 33 days in FY2018 as against 67 days in FY2017. This is on account of inventory holding of 22 days in FY2018 as against 25 days in FY2017 and debtors of 9 days in FY2018 as against 32 days in FY2017. The cash credit facility has been utilised at around 58 percent on an average for the six months ended 31 December, 2018.

Weaknesses

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

The scale of operations increased to Rs.64.45 crore in FY2018 from Rs.43.84 crore in FY2017. As informed by the management, the firm registered revenue of around Rs.50.00 crore from April to December 2018 (Provisional). The profitability margins are low owing to the trading nature of business. The operating margins declined to 0.94 percent in FY2018 from 2.01 percent in the previous year. The PAT margin declined to 0.03 percent in FY2018 from 1.12 percent in the previous year.

- **Below average financial profile**

The financial risk profile is average marked by low net worth of Rs.1.33 crore as on 31 March, 2018 as against Rs.2.08 crore as on 31 March, 2017. The gearing (debt-to-equity ratio) stood high at 8.47 times as on 31 March, 2018 as against 9.32 times in the previous year. The total debt of Rs.4.62 crore consists of working capital borrowings of Rs.4.62 crore as on 31 March, 2018. The interest coverage ratio (ICR) declined to 1.13 times in FY2018 from 2.11 times in FY2017. In FY2018, the net cash accruals to total debt (NCA/TD) stood at 0.02 times compared to 0.13 times in FY2017.

- **Highly fragmented and competitive industry**

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

- **Risk of capital withdrawal**

The firm is exposed to risk of capital withdrawal considering its partnership constitution.

Liquidity Position

AA has weak liquidity marked by decline in net cash accruals. The firm generated cash accruals of Rs.0.07 crore during FY18 as against Rs.0.55 crore during FY2017. The cash accruals of the firm are estimated to remain around Rs.0.15 – 0.17 crore during 2019-21. The firm has comfortable working capital operations as marked by gross current asset (GCA) days of 33 in FY 2018. This has led to lower reliance on working capital borrowings, the cash credit limit of the firm remains utilized at 58 percent during the last six months period ended December 2018. The firm maintains unencumbered cash and bank balances of Rs.0.09 crore as on March 31, 2018. The current ratio of the firm stands moderate at 1.21 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of low cash accrual.

Outlook: Stable

Acuité 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	64.45	43.84	40.75
EBITDA	Rs. Cr.	0.61	0.88	0.72
PAT	Rs. Cr.	0.02	0.49	0.28
EBITDA Margin	(%)	0.94	2.01	1.77
PAT Margin	(%)	0.03	1.12	0.69
ROCE	(%)	8.97	14.94	20.91
Total Debt/Tangible Net Worth	Times	8.47	9.32	41.43
PBDIT/Interest	Times	1.13	2.11	1.82
Total Debt/PBDIT	Times	8.75	5.55	8.53
Gross Current Assets (Days)	Days	33	67	69

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

None

Any other information

“Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups”

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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
13-Dec-2017	Cash Credit	Long Term	6.80	ACUITE B+ / 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	6.80	ACUITE B / Stable (Downgraded from ACUITE B+/Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 02249294044 Saurabh.Rane@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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.