

## Press Release

22 January 2018

**Balaji Agro Private Limited**

**Rating Rationale**



<b>Total Bank Facilities Rated *</b>	Rs.31.50 cr.
<b>Long Term Rating</b>	SMERA BB/ Outlook: Stable (Assigned)
<b>Short Term Rating</b>	SMERA A4 + ( Assigned)

# Refer Annexure for details

**Rating Rationale**

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.31.50 crore bank facilities of Balaji Agro Private Limited. The outlook is '**Stable**'.

Incorporated in 2000 by Mr. Nand Kishore Agarwal and Mr. Raju Agarwal, Balaji Agro Private Limited (BAPL), a Kolkata-based company is engaged in the blending and export of tea under the brand names 'Meri Chai' and 'Popular'. The company has two blending units at Maheshtala and Khiderpore (West Bengal) with combined installed capacity of 1 cr kg of tea per annum. The company also provides warehousing services on rent.

### **Key Rating Drivers**

#### **Strengths**

##### **Experienced Management and long track record of operations**

The Directors, Mr Nand Kishore Agarwal and Mr. Raju Agarwal have over two decades of experience in the blending and export of tea.

#### **Wide geographical diversity**

The company has reasonable presence in the domestic markets of West Bengal, Assam, Uttar Pradesh, Bihar and Rajasthan. It also exports to Russia, Kazakhstan, Saudi Arabia, UAE and Tunisia.

#### **Moderate scale of operations**

The company reported operating income of Rs. 117.92 crore in FY2017 as against Rs. 137.96 crore in FY2016. The fall in operating income is primarily on account of decline in domestic sales to Rs 38.33 crore in FY2017 from Rs 51.26 crore in FY2016. Also during the current year, the company clocked revenue of ~ Rs 99.80 crore (Provisional) till Nov'17.

#### **Weaknesses**

#### **Moderate Financial Risk Profile**

The moderate financial risk profile is marked by constrained debt protection metrics, conservative gearing and healthy net worth. The Interest Coverage ratio stood at 1.56 times in FY2017 as against 1.36 times in

FY2016. The NCA/TD stood low at 0.04 times in FY2017 as against 0.03 times in FY2016. The debt of Rs 49.86 crore mainly comprises unsecured loans from promoters and group companies of Rs.18.06 crore and working capital facility from the bank of Rs.31.72 crore in FY2017. The gearing is comfortable and stood at 0.84 times in FY2017 as against 0.94 times in FY2016. The net worth stood comfortable at Rs 59.34 crore as on 31 March, 2017 as against Rs 57.76 crore as on 31 March, 2016.

### **Working capital intensive operations**

BAPL's operations are working capital intensive marked by high Gross Current Asset (GCA) days of 344 in FY2017 as compared to 293 days in FY2016. The high GCA days are primarily due to high debtors days and high inventory holding period. The debtor days stood at 91 in FY2017 compared to 110 days in FY2016. The high debtor days are mainly on account of long transit period of nearly 100-120 days to reach the export destination. The inventory days stood at 147 in FY2017 as against 109 days in FY2016 mainly because the company needs to stock up due to the lean season of tea from November to March. The company, on an average utilises around 80 per cent of its working capital facilities.

### **Significant project risk**

BAPL has incurred significant amount of capex of Rs 24.98 crore in the last two years in the form of addition to its land and building for its warehouse business. The warehouses are used to store packaged tea. The same are leased thereby generating revenue of ~ Rs 1.80 crore per annum. The significant investment in warehouse denotes the focus of the management to diversify its revenue profile into the warehouse business. In addition, the company has taken an advance of Rs 16.23 crore in FY2017 from Turmoil Mercentile Private Limited to develop warehouses which are likely to get completed by FY2019-2020. Being able to generate the envisaged returns from the capex and timely completion of the project in hand remain key rating sensitivities.

### **Volatility in tea prices and agro climatic conditions**

The prices of tea are linked to the auctioned prices and further to prices of tea in the international market. Significant price movements in the international market may affect BAPL's profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances in the domestic and international market. Tea is a perishable product and demand for it is relatively price inelastic as it caters to all segments of society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

### **Analytical Approach**

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of BAPL.

### **Outlook: Stable**

SMERA believes that BAPL will maintain a Stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue while achieving sustained improvement in profit margins, working capital management and timely completion of the project in hand. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected revenues leading to a fall in margins or deterioration in the financial risk profile and delays in completion of the project in hand.

## About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	117.92	137.96	85.05
EBITDA	Rs. Cr.	6.25	7.44	5.77
PAT	Rs. Cr.	1.58	1.30	0.65
EBITDA Margin	(%)	5.30	5.40	6.79
PAT Margin	(%)	1.34	0.95	0.77
ROCE	(%)	6.24	7.09	5.97
Total Debt/Tangible Net Worth	Times	0.84	0.94	2.16
PBDIT/Interest	Times	1.56	1.36	1.27
Total Debt/PBDIT	Times	6.95	6.48	12.70
Gross Current Assets (Days)	Days	344	293	465

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

CRISIL Ratings in its press release dated November 28, 2017 inter alia has stated the following: Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of Balaji Agro Private Limited. This restricts CRISIL's ability to take a forward looking view on the credit quality of the entity. CRISIL believes that the information available for Balaji Agro Private Limited is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB' rating category or lower. Based on the last available information, CRISIL has reaffirmed the rating at 'CRISIL A4+'.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+ (Assigned)
Foreign Bill Discounting	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4+ (Assigned)
Proposed PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+ (Assigned)
Long Term Proposed	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA BB/Stable (Assigned)

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**ABOUT SMERA**

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