Press Release

Raghav Agri-Tech

February 21, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** to the Rs. 45.00 crore bank facilities of Raghav Agri-Tech (RA). The outlook is **'Stable'**.

RA was established in 2015 by Mr. Madan K. Atkare, Mr. Dinesh K. Atkare and Mrs. Dipali D. Atkare. The firm is in the process of setting up a unit to manufacture agro shade nets, aquaculture nets, tea withering nets, ground covers and mulch films in Valsad (Gujarat). The total installed capacity is expected to be around 30 TPD. The commercial operations commenced from December 2018.

Analytical Approach

During the previous rating exercise, Acuité has considered standalone view of RA as the project was under execution stage and commercial operations were yet to start.
However, Acuité has now consolidated the business and financial risk profiles of Raghav Agri-Tech (RA) with Santoshi Polymers (SP), Santoshi Barriers Film India Private limited (SBFIPL) as the commercial operations has already commenced and strong operational and financial synergies between the companies and business operated under the same promoter group and management. Thus, hereinafter referred to as 'Santoshi group'. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  The group was established in 2003 by Mr. Dinesh Atkare and Mr. Amresh Shah who possess more than two decades of experience in the plastic industry. The promoters have been able to establish long term relations with major customers, namely, Amul, Gokul, Mother dairy and Ratna, among others.

- **Moderate scale of operations**
  The group registered revenue of Rs.130.95 crore in FY2018 as against Rs.129.71 crore in FY2017 as against Rs.99.61 crore in FY2016. Further, from April 2018 to December 2018, the group registered revenue of Rs.~127 crore. Over the years, the company has built a wide network and healthy trade relations with domestic customers. Acuité expects revenue to be moderate in the near term on account of the continuous order book from reputed client base.

- **Moderate financial risk profile**
  Santoshi Group has moderate financial risk profile marked by healthy net worth, moderate gearing and debt protection matrix. The net worth stood at Rs.63.10 crore as on March 31, 2018, which has witnessed sequential improvement from Rs.46.86 crore as on March 31, 2017. This includes unsecured loans of Rs.10.96 crore considered as quasi equity as on March 31, 2018. The gearing (debt-equity) has improved to 1.03 times as on 31 March, 2018 compared to 1.13 times as on 31 March, 2017. The total debt mainly includes term loans of Rs.37.57 crore and working capital borrowings of Rs. 27.31 crore as on 31 March, 2018. The Interest Coverage Ratio (ICR) stood at 2.02 times in FY2018 compared to 1.83 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 1.49 times in FY2018 and 1.39 times in FY2017. The Total outstanding Liabilities to Total Net worth (TOL/TNW) decreased to 1.38 times as on 31 March, 2018 compared to 1.70 times as on 31 March, 2017. The net cash accruals to total debt stood low at 0.07 times as on March 31, 2018. The group's annual net

cash accruals (PAT + Depreciation) were ~Rs.4.73 crore for FY2018. Acuité expects that the sufficient revenue generation and profitability from the group for repayment of debt will remain a key monitorable.

Weaknesses

- **Working capital intensive operations**

The Santoshi group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 199 days in FY2018 compared to 238 days in FY2017. The GCA days are mainly dominated by high debtor days of 126 days in FY2018 and 139 days in FY2017. The average bank limit utilisation for the past six months stood above 90 percent for the month ended December, 2018. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Decline in profitability margins**

The EBITDA margins of the group improved to 8.83 percent in FY2018 from 6.19 percent in FY2017, mainly on account of decrease in selling expenses. Further, the PAT margin declined to 1.62 per cent in FY2018 from 1.77 per cent in FY2017 on account of increase in interest and depreciation cost. The Indian flexible packaging industry is highly fragmented on account of the low capital intensity, low entry barriers and easy availability of raw materials affecting bargaining power with customers.

Liquidity Position:

Santoshi Group has moderate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.22 crore to Rs.4.73 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.1.12 crore as on 31 March, 2016 and Rs.1.96 crore as on 31 March, 2018. The group is expected to improve the operational performance in FY2019 with synergy from Raghav Agri-Tech to payoff significant upcoming debt obligations. The operations are moderately working capital intensive as marked by gross current asset (GCA) of 199 days in FY 2018 as compared to 238 days in FY 2017. The cash credit limit of the group remains utilised at ~90 percent during the last six months period ended December, 2018. The current ratio of the group stands at 1.48 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account elongation in working capital.

Outlook: Stable

Acuité believes that the outlook of RA will remain 'Stable' owing to the experience of its promoters. The outlook may be revised to positive if the firm achieves significant improvement in revenues, leading to healthy cashflows and improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and net cash accruals leading to deterioration in the financial risk profile, particularly liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	130.95	129.71	99.61
EBITDA	Rs. Cr.	11.56	8.03	7.70
PAT	Rs. Cr.	2.12	2.29	2.19
EBITDA Margin	(%)	8.83	6.19	7.73
PAT Margin	(%)	1.62	1.77	2.20
ROCE	(%)	7.80	8.48	20.74
Total Debt/Tangible Net Worth	Times	1.03	1.13	0.91
PBDIT/Interest	Times	2.02	1.83	1.84
Total Debt/PBDIT	Times	5.57	6.56	3.92
Gross Current Assets (Days)	Days	199	238	247

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

Not Applicable

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
- Consolidation of Companies - https://www.acuite.in/view-rating-criteria-22.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
15-Feb-2018	Cash Credit	Long Term	5.00	ACUITE BB- /Stable (Assigned)
	Term Loan	Long Term	40.00	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	5.00	ACUITE BB- / Stable (reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 (reaffirmed)

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