

Press Release

Shree Aarti Enterprises

November 22, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.20.50 Cr. (Enhanced from Rs.15.00 crore)
Long Term Rating	ACUITE BB-/outlook: stable

* Refer Annexure for details

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs.17.00 crore bank facilities and assigned the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs.3.50 crore bank facilities of Shree Aarti Enterprises. The outlook is '**Stable**'.

The Indore based, Shree Aarti Enterprises (SAE) was incorporated in 1998 as a partnership firm by four family members. The firm is engaged in ginning and pressing of cotton, cotton seed oil extraction and wholesale trading of food grains. The operations are headed by Mr. Abhishek Goyal who possess more than two decades of work experience in said line of business. At present, the firm has installed oil extraction capacity of 17 MT per day.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The operations of the firm are managed by Mr. Abhishek Goyal along with Mr. Bhikamchand Goyal, Mr. Kailashchand Goyal and Smt. Shakuntala Goyal. The partners have experience of more than two decade in said line of business. The long standing presence of the firm has enabled in establishing healthy relations with customers and suppliers.

- **Comfortable working capital cycle management**

The working capital cycle is efficiently managed as reflected in inventory holding period of 26 days in FY18 as compared to 38 days in FY17. The debtor days stood at 52 in FY18 as compared to 23 in FY17. The debtors increased due to higher sales in March, 2018. The Gross Current Assets (GCA) stood at 77 days in FY18 as compared to 62 days in FY17 due to increase in debtor days. The average cash credit utilisation stood at ~90 percent over last 6 months ended on September, 2018. Acuité believes that efficient working capital management after expansion in oil mill capacity will be crucial in order to maintain a stable credit profile.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the firm is average marked by low net worth of Rs.7.18 crore inclusive of quasi equity of Rs.2.04 crore as on March 31, 2018 as compared to Rs.6.09 crore as on March 31, 2017. The debt to equity stood moderate at 1.98 times as on March 31, 2018 as compared to 1.92 times as on March 31, 2017. Further, the interest coverage ratio (ICR) improved marginally to 1.42 times as on March 31, 2018 as compared to 1.39 times as on March 31, 2017. The DSCR stood constant at 1.13 times in both FY17 and FY18.

• **Highly fragmented and competitive industry**

The firm operates in the agriculture product industry. The sector is marked by the presence of several small to big size players. Further, the availability of cotton depends on the monsoon, and erratic rainfall may result in a short supply of cotton, and hence, in idle capacity and high input cost, thus affecting its operating profitability.

• **Profit susceptible to volatility in raw material prices**

SAE operating profitability is susceptible to volatility in raw material prices (raw cotton and other food grains) which are regulated by minimum support price. Further, the estimated decline in cotton production by CAI (Cotton Authority of India) in FY18-19 due to prolonged dry spell in Gujarat, Maharashtra and Telangana will lead to price pressure.

Outlook: Stable

Acuite believes that the outlook on SAE will remain 'Stable' and the firm will benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while improving financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profitability, higher than envisaged debt funded capex or working capital requirements deteriorating the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	84.97	81.36	38.52
EBITDA	Rs. Cr.	2.02	1.84	1.28
PAT	Rs. Cr.	0.17	0.05	0.03
EBITDA Margin	(%)	2.38	2.27	3.33
PAT Margin	(%)	0.20	0.06	0.08
ROCE	(%)	8.15	8.63	8.81
Total Debt/Tangible Net Worth	Times	1.98	1.92	1.73
PBDIT/Interest	Times	1.42	1.39	1.33
Total Debt/PBDIT	Times	7.03	6.32	6.99
Gross Current Assets (Days)	Days	77	62	86

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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>

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
17-Mar-2018	Cash Credit	Long Term	12.00	ACUITE BB-/ Stable (Upgraded)
	Term Loan	Long Term	2.29	ACUITE BB-/ Stable (Upgraded)
	Proposed Bank Facilities	Long Term	0.71	ACUITE BB-/ Stable (Upgraded)
30-Jan-2018	Cash Credit	Long Term	9.00	ACUITE B+ (Indicative)
	Term Loan	Long Term	3.00	ACUITE B+ (Indicative)
30-Dec-2016	Cash Credit	Long Term	9.00	ACUITE B+/ Stable (Assigned)
	Term Loan	Long Term	3.00	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	12.00	ACUITE BB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.04	ACUITE BB- / Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB- / Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	2.96 (Enhanced from Rs.0.71 crore)	ACUITE BB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Bhanupriya Khandelwal Analyst - Rating Operations Tel: 02249294045 bhanupriya.khandelwal@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

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