

Press Release

Shree Aarti Enterprises

August 27, 2020



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.20.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.20.43 Cr. bank facilities and assigned the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.0.07 Cr. bank facilities of Shree Aarti Enterprises. The outlook is 'Stable'.

The rating was downgraded as per the press release dated Jan 30, 2020 on account of information risk. However, the firm has now cooperated with Acuite for the review.

About the company

Shree Aarti Enterprises (SAE) was established in 1998 as a partnership firm among 4 partners. It is a family-owned business managed by Mr. Abhishek Goyal, Mr. Bhikamchand Goyal, Mr. Kailashchand Goyal and Mrs. Shakuntala Goyal. The firm is engaged in ginning and pressing of cotton bales, extraction of cottonseed oil and wholesale trading of food grains.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of SAE to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management and Established track record of operations

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

Acuite believes that the firm will continue to benefit from partner's experience in the industry and its established market presence over the medium term.

• Comfortable working capital cycle management

The firm has a comfortable working capital cycle as reflected in its Gross Current Assets (GCA) of 71 days for FY2020 (Provisional) as compared to 69 days for FY2019. The GCA days was mainly dominated by inventory holding period of 48 days for FY2020 (Provisional) as compared to 26 days for FY2019. The increase in inventory can be attributed to the lockdown restrictions at the end of FY2020. The debtor days stood at 24 days for FY2020 (Provisional) as compared to 41 days for FY2019. The average cash credit utilisation stood at 90 percent utilisation over last 6 months ended on July, 2020.

Acuite believes that the efficiency in the working capital management is key to ensure adequacy in liquidity of the firm.

Weaknesses

• Average financial risk profile

The firm has average financial risk profile marked by low net worth of Rs.8.61 crore inclusive of quasi-equity of Rs.2.29 crore as on March 31, 2020 (Provisional) as compared to Rs.7.94 crore as on March 31, 2019. The

gearing stood moderate at 1.94 times as on March 31, 2020 (Provisional) as compared to 1.74 times as on March 31, 2019. Further, the interest coverage ratio (ICR) improved marginally to 1.49 times as on March 31, 2020 (Provisional) as compared to 1.32 times as on March 31, 2019. The DSCR has however reduced to 0.98 times as on March 31, 2020 (Provisional) as compared to 1.03 times as on March 31, 2019. The deterioration in DSCR is due to a higher proportion of the increase in debt as compared the cash accruals. The TOL/TNW has also deteriorated to 2.06 times as on March 31, 2020 (Provisional) as compared to 1.96 times as on March 31, 2019 due to additional debt availed by the firm.

Acuite believes that the financial risk profile of the company will continue to remain average over the near term in the absence of any major future debt-funded capex.

• **Susceptibility of operating performance to input price volatility, increasing competition and agro-climatic risk**

Cotton prices are regulated by the government through MSP (Minimum Support Price) mechanism. The profitability is susceptible to changes in the prices of raw material. However, the selling price of the output depends on the prevailing demand-supply situation restricting bargaining power with customers, thereby impacting margins. The firm operates in a highly fragmented industry characterised by the presence of a large number of unorganised players. Further, Seed cotton and otherwise other grains in which the firm does wholesale trading is exposed to agroclimatic risks, and the production is also highly dependent upon the monsoon and the climatic conditions. Higher temperature in already hot areas may hinder cotton development and fruit formation resulting in reduced yields.

Liquidity position: Stretched

The firm has a stretched liquidity position marked by 95 percent utilisation of working capital limits and inadequate net cash accruals against its maturing debt obligations, which has been met by timely infusion of funds by the partners. The firm had NCA of Rs.1.05 crore as against the maturing debt obligation of Rs.1.24 crore in FY2020 (Provisional). The firm has availed loan moratorium due to Covid-19. The current ratio stood at 1.30 times as on March 31, 2020 (Provisional). The NCA/TD has remained stagnant at 0.06 times as on March 31, 2020 (Provisional) as compared to 0.04 times as on March 31, 2019. The cash and bank balances of the firm stood at Rs.0.09 crore as on March 31, 2020 (Provisional).

Acuite believes that liquidity of the firm can improve over the medium term as the harvesting season nears, resulting in improvement in business and liquidity.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Deterioration in the financial risk profile

Material Covenants

None

Outlook: Stable

Acuite believes that the outlook on SAE will remain 'Stable' and the firm will benefit over the medium term supported by experienced management and long track record of operations. 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	95.07	93.78
PAT	Rs. Cr.	0.28	0.12
PAT Margin	(%)	0.29	0.13
Total Debt/Tangible Net Worth	Times	1.94	1.74
PBDIT/Interest	Times	1.49	1.32

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
30-Jan-2020	Cash Credit	Long Term	12.00	ACUITE B+ (Downgraded; Issuer not co-operating)
	Term Loan	Long Term	2.04	ACUITE B+ (Downgraded; Issuer not co-operating)
	Proposed Term Loan	Long Term	3.50	ACUITE B+ (Downgraded; Issuer not co-operating)
	Proposed Bank Facilities	Long Term	2.96	ACUITE B+ (Downgraded; Issuer not co-operating)
22-Nov-2018	Cash Credit	Long Term	12.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	2.04	ACUITE BB- / Stable (Reaffirmed)
	Proposed Term Loan	Long Term	3.50	ACUITE BB- / Stable (Assigned)
	Proposed Bank Facilities	Long Term	2.96	ACUITE BB- / Stable (Reaffirmed)
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+ (Assigned)
	Term Loan	Long Term	3.00	ACUITE B+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB- / Stable (Upgraded from ACUITE B+)
Term Loan I	November, 2015	9.25%	November, 2021	1.59 (Revised from Rs.2.04 crore)	ACUITE BB- / Stable (Upgraded from ACUITE B+)
Term Loan II	August, 2018	9.25%	June, 2025	0.07	ACUITE BB- / Stable (Assigned)
Term Loan III	December, 2019	9.25%	December, 2025	3.50	ACUITE BB- / Stable (Upgraded from ACUITE B+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.34 (Revised from Rs.2.96 crore)	ACUITE BB- / Stable (Upgraded from ACUITE B+)

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About Acuite Ratings & Research:

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