

Press Release

Vinayak Agencies

August 12, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB- /Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 6.00 crore bank facilities of Vinayak Agencies. The outlook is 'Stable'.

The rating downgrade reflects consistent decline in the profitability of the firm resulting in reduction in net cash accruals along with deterioration in the financial risk profile. The gearing (debt-equity) stood at 3.27 times as on 31 March, 2019 (Provisional) as against 2.36 times as on 31 March, 2018. Further, Interest Coverage Ratio (ICR) declined to 1.19 times for FY2019 (Provisional) from 1.53 times for FY2018.

The Mumbai based, Vinayak Agencies (VA) was established as a partnership firm in 1992 by Mr. Janak G. Oza, Mr. Paresh G. Oza and Mr. Ravishankar G. Oza. The firm is engaged in trading of Kraft papers, duplex boards and FBB (Folding Boxboard) among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile for VA to arrive at the rating.

Key Rating Drivers

Strengths

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

The firm was established in 1992, thus having an operational track record of over two decades in the paper trading industry. The partners possess over three decades of experience in the aforementioned line of business. Established presence of the firm and vast experience of management has helped the firm develop healthy relationship with its customers and suppliers.

Acuité believes that VA will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Moderate scale of operations**

The operating income of VA has grown at a CAGR of 27 percent for the period FY2016-FY2019 (Provisional). The revenues increased to Rs. 87.87 crore in FY2019 (Provisional) from Rs. 66.23 crore in FY2018 and Rs. 48.79 crore in FY2017. This is mainly on account of increased orders from existing as well as new customers.

Weaknesses

- **Thin profitability**

The firm operates in thinly profitable industry, due to trading nature of the business and intensely competitive industry with number of organized and unorganized players. EBITDA margins stood at 1.27 percent in FY2019 (Provisional) as against 1.31 percent in FY2018. Further, PAT margin stood thin at 0.18 percent in FY2019 (Provisional) as against 0.45 percent in FY2018. This is mainly due to high interest cost in FY2019 (Provisional). Acuité believes that the firm's ability to register growth in revenue while maintaining adequate profitability will be key sensitivity factor.

• Deteriorating financial risk profile

The financial risk profile of the firm has deteriorated marked by low net worth, average debt protection metrics and coverage indicators. The net worth of VA stood low at Rs. 3.20 crore as on 31 March, 2019 (Provisional) as against Rs. 3.48 crore as on 31 March, 2018. The gearing (debt-equity) stood at 3.27 times as on 31 March, 2019 (Provisional) as against 2.36 times as on 31 March, 2018. The total debt of Rs. 10.48 crore as on 31 March, 2019 (Provisional) mainly comprises Rs. 7.95 crore of working capital borrowings and Rs. 2.53 crore of unsecured loans. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 1.19 times for FY2019 (Provisional) as against 1.53 times for FY2018. Debt to EBITDA stood high at 9.35 times for FY2019 (Provisional) as against 9.48 times for FY2018.

Acuite believes that the financial risk profile of the firm is expected to remain average backed by average net cash accruals and in the absence of any major debt funded capex in near to medium term.

• Highly fragmented and competitive nature of industry

The firm is operating in a highly competitive paper industry which is marked by various organized and unorganized players present in the market.

Liquidity Position

VA has weak liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.18 crore for FY2019 (Provisional) against no debt obligation for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.20 crore to Rs. 0.50 crore during 2020-22 against no repayment obligation for the same period. The firm has efficiently managed working capital operations as marked by GCA days of 103 days for FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 0.15 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.29 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain weak over the medium term on account of low net cash accruals.

Outlook: Stable

Acuite believes that VA will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	87.87	66.23	48.79
EBITDA	Rs. Cr.	1.12	0.86	1.00
PAT	Rs. Cr.	0.16	0.30	0.34
EBITDA Margin	(%)	1.27	1.31	2.05
PAT Margin	(%)	0.18	0.45	0.70
ROCE	(%)	8.65	8.15	10.80
Total Debt/Tangible Net Worth	Times	3.27	2.36	1.63
PBDIT/Interest	Times	1.19	1.53	1.52
Total Debt/PBDIT	Times	9.35	9.48	5.83
Gross Current Assets (Days)	Days	103	119	108

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-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
12-Jun-2018	Cash Credit	Long Term	5.00	ACUITE BB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	1.00	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 B+ / Stable (Downgraded from ACUITE BB-/ Stable)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/ Stable)

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About Acuité Ratings & Research:

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