

Press Release

Vinayak Agencies

October 21, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.6.00 crore bank facilities of Vinayak Agencies. The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of a long track record of operations, modest scale of operations with improvement in revenue & margins and adequate liquidity with judicious utilization of the working capital bank limits. The rating, however, continues to remain constrained at the same level on account of working capital-intensive operations driven majorly by high receivable days and average financial risk profile with moderate gearing and moderate debt protection metrics.

About the Firm

Mumbai-based, VA was established as a partnership firm in 1992. The firm is engaged in trading of Kraft papers, duplex boards and FBB (Folding Boxboard) among others. The partners viz. Mr. Paresh G. Oza, Mr. Ravishankar G Oza, Mr. Janak G Oza, Mrs. Madhavi P. Oza, Mrs. Sandhya R Oza and Mrs. Nayana J Oza have over three decades of experience in the paper trading industry.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of VA to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

VA, promoted by Paresh G. Oza, Mr. Ravishankar G Oza, Mr. Janak G Oza, Mrs. Madhavi P. Oza, Mrs. Sandhya R Oza and Mrs. Nayana J Oza have over three decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations of over two decades in the paper trading industry has enabled the company to forge healthy relationships with customers and suppliers. Acuite believes that the business is expected to benefit from its established presence in the aforementioned industry and the partners demonstrated ability; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

Weaknesses

- Average financial risk profile**

VA's financial risk profile is average marked by moderate gearing (debt to equity ratio), deteriorating total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood moderate at 2.70 times as on 31st March, 2020 (Prov.) against 3.28 times in 31st March, 2019. TOL/TNW stood at 5.35 times as on 31st March, 2020 (Prov.) against 6.64 times as on 31st March, 2019. Tangible net worth of the company stood modest at Rs.4.12 Cr as on 31st March, 2020 (Prov.) against Rs.3.19 Cr as on 31st March, 2019.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.26 times and 0.04 times, respectively in FY2020 (Prov.). Acuite believes that the financial risk profile of the company is expected to remain average on account of modest networth coupled with low net cash accruals against nil debt repayment obligations and moderate debt protection metrics.

• Working capital intensive operations

VA's operations have remained intensive, marked by Gross Current Asset days (GCA) of 122 days in FY2020 (Prov.) against 101 days in FY2019. This is majorly driven by high receivable days. The debtors' days stood at 108 days in FY2020 (Prov.) against 94 days in FY2019. The credit period given to customers' ranges from 0-90 days but sometimes the firm gets part payment from its customers and the remaining amount is paid at a later date. The creditors days stood at 53 days in FY2020 (Prov.) against 46 days in FY2019 which is corresponding to normal terms with suppliers. However, working capital bank lines remain utilized at ~70-80 percent for August, 2020. Acuite believes that the working capital operations are expected to remain high with respect to the receivable cycle and which will remain key rating sensitivity factor.

• 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.

• Risk of withdrawal associated with partnership nature

VA was established as a partnership firm in 1992. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Any stretch in working capital operations leading to the deterioration of its financial risk profile and liquidity.
- Growth in revenue with the sustainability of the profitability margins.

Material Covenants

None

Liquidity: Weak

VA has weak liquidity as reflected by working capital intensive operations evident from Gross Current Asset (GCA) days of 122 days in FY2020 (Prov.) against 101 days in FY2019. The firm has reported low cash accruals of Rs.0.46 Cr in FY2020 (Prov.) against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.0.42 Cr – Rs.1.26 Cr against nil repayment obligations. The moratorium is for 6 months on principal and the repayment will start from November, 2020. The working capital limits are utilized at ~70-80 percent for August, 2020. The firm has unencumbered cash and bank balances of Rs.0.26 Cr in FY2020 (Prov.). The current ratio stood at 1.37 times in the same period. Acuite believes that the liquidity of the firm is expected to remain weak over the medium term on account of working capital-intensive operations and low net cash accruals against nil repayment obligations.

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 the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	76.49	87.17
PAT	Rs. Cr.	0.44	0.16
PAT Margin	(%)	0.58	0.19
Total Debt/Tangible Net Worth	Times	2.70	3.28
PBDIT/Interest	Times	1.26	1.18

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
12-Aug-2019	Cash Credit	Long Term	5.00	ACUITE B+/ Stable (Downgraded)
	Proposed Bank Facility	Long Term	1.00	ACUITE B+/ Stable (Downgraded)
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	5.75*	ACUITE B+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE B+/ Stable (Reaffirmed)

*Increased from Rs. 5.00 Cr

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About Acuité Ratings & Research:

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