

Press Release

Advance Cropcare (India) Private Limited

November 23, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.23.01 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.23.01 crore bank facilities of Advance Cropcare (India) Private Limited (ACPL). The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of a long track record of operations and improvement in revenues and margins in FY2020 (Provisional). The rating, however, continues to remain constrained on account of working capital-intensive operations driven majorly by high inventory levels and the impact on operations in FY2021 due to global outbreak of COVID-19.

About the Company

Indore-based, ACPL was incorporated in 2007. The company is engaged in the manufacturing of Bio Fertilizers, Micro Nutrients, Fertilizers, Herbicides, Weedicides, Insecticides, Pesticides & Bio Pesticides and Zinc Sulphate ZnSo₄ Unit. The company is promoted by Mr. Ashish Tiwari, Mr. Hari Charan Tiwari, Mr. Abhishek Tiwari and Mr. Shekhar Babu. ACPL has two manufacturing units located at M.P and one unit at Dahej (Gujarat).

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The promoters, Mr. Ashish Tiwari, Mr. Hari Charan Tiwari, Mr. Abhishek Tiwari and Mr. Shekhar Babu have over two decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability.

• Moderate financial risk profile

ACPL's financial risk profile is moderate marked by moderate gearing (debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing stood moderate at 0.86 times as on 31st March, 2020 (Provisional) against 0.76 times as on 31st March, 2019. TOL/TNW stood at 1.66 times as on 31st March, 2020 (Provisional) against 1.83 times as on 31st March, 2019. Tangible net worth of the company stood modest at Rs.24.00 Cr as on 31st March, 2020 (Provisional) against Rs.23.24 Cr as on 31st March, 2019. Of the total debt of Rs.20.55 Cr as on 31st March, 2020 (Provisional), long-term debt stood at Rs.4.27 Cr, short-term debt stood at Rs.15.32 Cr and unsecured loans stood at Rs.0.97 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 1.79 times and 0.08 times respectively in FY2020 (Provisional). DSCR stood moderate at 1.25 times in FY2020 (Provisional). The company reported cash accruals of Rs.1.68 Cr for FY2020 (Provisional) against moderate repayment obligations. Further, annual cash accruals are expected to be in the range of about Rs.1.07 Cr-Rs.2.65 Cr in the medium term against moderate repayment obligations.

Acuité believes that the financial risk profile of the company is expected to remain moderate on account of modest net worth backed by moderate net cash accruals vis- à-vis moderate debt repayment obligations and moderate debt protection metrics.

Weaknesses

• Working capital intensive operations

ACPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 220 days in FY2020 (Provisional) against 237 days in FY2019 owing to high inventory days. The inventory days were recorded at 60 days in FY2020 (Provisional) against 45 days in FY2019. Further, the inventory holding policy followed by the company ranges from 3-4 months to cater to spot orders. The debtors' days were recorded at 85 days in FY2020 (Provisional) against 107 days in FY2019. However, working capital bank lines remain utilized at ~96 percent for the last twelve months ended October, 2020.

Acuité believes that the working capital operations are expected to remain on similar lines with respect to the inventory cycle; which will remain a key rating sensitivity factor.

• Regulatory risk

The fertilizer industry is highly regulated with profitability largely dependent on government policies with regard to subsidy and pricing.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

ACPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals of Rs.1.42 Cr-Rs.1.68 Cr during the last three years through 2018-20. It is expected to generate cash accruals in the range of Rs.1.07 Cr- Rs.2.65 Cr over the medium term, against moderate repayment obligations. Unencumbered cash and bank balances stood at Rs.1.42 Cr as on 31st March, 2020 (Provisional) with a current ratio of 1.37 times in the same period. The working capital limits remains utilized at ~96 percent for the last twelve months ended October, 2020.

Acuité believes that liquidity profile is expected to remain adequate on account of moderate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that ACPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long-standing presence in the industry. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	81.06	78.77
PAT	Rs. Cr.	0.76	0.70
PAT Margin	(%)	0.93	0.89
Total Debt/Tangible Net Worth	Times	0.86	0.76
PBDIT/Interest	Times	1.79	1.78

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

Not Applicable

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
26-Aug-2019	Cash Credit	Long Term	15.00	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.01	ACUITE BB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Assigned)
15-Jun-2018	Cash Credit	Long Term	12.00	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long Term	0.52	ACUITE BB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	0.99	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (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	15.00	ACUITE BB-/ Stable (Reaffirmed)
Term Loan	26-02-2019	10.25%	30-04-2025	2.91	ACUITE BB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE BB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294051 avadhoot.mane@acuite.in	

About Acuité Ratings & Research:

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