

Press Release

Aroma Productions Private Limited

July 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 11.12 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.11.12 crore bank facilities of Aroma Productions Private Limited (Formerly known as Parshva Tobacco Company Private Limited). The outlook is '**Stable**'.

Aroma Productions Private Limited (Previously known as Parshva Tobacco Company Private Limited) was incorporated in 2011 by Mr. Snehal Patel and is engaged in manufacturing of cigarettes with the brand name 'One & Only'. The manufacturing facility is located at Chidwara (Madhya Pradesh). APPL tied up with Korean Tobacco & Global (KT&G) to support quality raw material supplies and for OEM. The company sells the cigarettes to Aroma Enterprises (Group Company) which is engaged in trading of coal, cigarette and supari.

Key Rating Drivers

Strengths

- **Experienced management**

APPL was incorporated in 2011 by Mr. Snehal Ajitbhai Patel and Mr. Jayendra Navinchandra Solanki. Mr. Snehal Patel has an experience of over a decade in Tobacco industry through other group companies and Mr. Jayendrakumar Solanki is having an experience of over a decade in the Tobacco Industry and he looks after the distribution network on PAN India basis.

- **Improvement in scale of operations**

APPL has registered growth in revenues during the period FY2016 to FY2018 under study. The operating income stood at Rs.1.30 crore in FY2017 as against Rs.0.97 crore in FY2016. Further, the company has booked revenue of Rs.40.00 crore for the period April 2017 to February 2018 (Provisional). This is majorly on account of new product added in the existing business profile i.e manufacturing of cigarettes (Previously, the company was trading cigarettes, pan masala and supari). Cigarettes contribute to 90 percent of the total revenue mix in FY2018 (Provisional).

Weaknesses

- **Average financial risk profile**

The financial risk profile of APPL is average marked by net worth of Rs.0.48 crore as on 31 March, 2017 as against Rs.2.07 crore as on 31 March, 2016. The gearing stood high at 2.89 times as on 31 March, 2017 as against 17.01 times as on 31 March, 2016. The total debt of Rs.8.30 crore outstanding as on 31 March, 2017 is unsecured loans from the promoters. The net cash accruals stood at Rs.0.08 crore in FY2017 as against Rs.0.18 crore in FY2016.

• Debt funded capex plan

The company has undertaken an expansion plan of ~Rs.10.00 crore for manufacturing of cigarette with brand name 'One & Only'. The total project cost is being partly funded by term loan of Rs.7.12 crore and unsecured loans from the Directors of Rs.2.88 crore. The company has installed new machineries which are imported from KT&G. The commercial production for this project has started from August 2017. Acuite believes that timely generation of adequate net cash accruals and revenue from this project in order to repay its debt obligation would be a key rating sensitivity.

• High regulatory risk

The company's performance remains exposed to regulatory risk as the tobacco board dictates the price and quantities to be produced in a given year. Furthermore, India is under WHO's Framework Convention on Tobacco Control (FCTC), it needs to reduce production of tobacco over the long term.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the APPL to arrive at this rating.

Outlook: Stable

Acuite believes that APPL will maintain a 'Stable' business risk profile on account of the experienced management and diversified product profile. The outlook may be revised to 'Positive' in case the company registers substantial growth in the scale of operations while achieving healthy profit margins and comfortable liquidity position. The outlook may be revised to 'Negative' in case of decline in the revenues or profitability and deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1.30	0.97	1.87
EBITDA	Rs. Cr.	0.08	0.21	0.75
PAT	Rs. Cr.	0.02	0.10	0.29
EBITDA Margin	(%)	6.45	21.83	40.15
PAT Margin	(%)	1.57	10.02	15.69
ROCE	(%)	0.43	2.61	52.59
Total Debt/Tangible Net Worth	Times	17.01	2.89	0.28
PBDIT/Interest	Times	97.00	133.81	4,715.29
Total Debt/PBDIT	Times	84.27	27.69	0.74
Gross Current Assets (Days)	Days	1,636	3,108	843

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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	7.12	ACUITE B/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.72	ACUITE B/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.28	ACUITE A4

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Namita Palve Analyst - Rating Operations Tel: 022-67141129 namita.palve@acuiterratings.in	

About Acuité Ratings & Research:

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