

Press Release

Amrit Oils And Chemicals

September 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 11.00 crore bank facilities of Amrit Oils And Chemicals. The outlook is '**Stable**'.

Established in 2010, AOC is a Punjab-based partnership firm promoted by Mr. Rajesh Gupta and Mrs. Pushpa Devi. The firm is engaged in manufacturing of white washing soap and refining of rice bran oil.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the firm.

Key Rating Drivers

Strengths

• Experienced management

AOC was established by Mr. Rajesh Gupta in 2010, and has been engaged in manufacturing of white washing soap for nearly a decade. In July 2018, the firm diversified its business and commenced operations for refining of rice bran oil.

Acuite believes that AOC will continue to benefit from its experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

• Healthy revenue growth

AOC has registered revenue growth with compounded annual growth rate (CAGR) of 24 percent during the last three years ended 31 March, 2018 (Provisional). The firm reported revenue of Rs.89.25 crore in FY2018 (Provisional) as against Rs.31.17 crore in FY2017. The significant increase in revenue is on account of refining of rice bran oil which commenced in July, 2017. Further, the firm has booked revenue of Rs.30.00 crore for April to August, 2018 and expects the revenue to be in the range of Rs.90.00-100.00 crore for FY2019.

However, there has been a decline in the operating margins from 16.72 percent in FY2016 to 22.96 percent in FY2017 to 8.07 percent in FY2018 (Provisional). The decline in operating margins is on account of addition of new line of business which exhibits thin margins due to low value additive nature. In line with the operating margins, PAT margins declined to negative 0.37 percent in FY2018 (Provisional) against 13.81 percent in FY2017 and 7.59 percent in FY2016. Decline in PAT margins is also due to additional depreciation charged on acquisition of new plant and machinery during the year.

• Moderate financial risk profile

AOC has moderate financial risk profile marked by moderate net worth of Rs.18.34 crore as on 31 March, 2018 (Provisional) compared to Rs.18.27 crore as on 31 March, 2017. The gearing remains moderate at 1.70 times as on 31 March, 2018 (Provisional) from 1.81 times as on 31 March, 2017. The total debt of Rs.31.14 crore includes term loan of Rs. 3.07 crore, unsecured loans from friends and relatives of Rs.12.22 crore and working capital borrowings of Rs.15.85 crore as on 31 March, 2018 (Provisional). The interest coverage ratio stood at 3.51 times in FY2018 (Provisional) as against 5.72 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.75 times as on 31 March, 2018 (Provisional) as against 1.89 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.17 times as on 31 March, 2018 (Provisional).

• Moderate working capital operations

The firm's operations are moderately working capital intensive as evident from Gross Current Assets (GCA) of 124 days in FY2018 (Provisional) as compared to 342 days in FY2017. The GCA days are

mainly dominated by high inventory holding of 106 days in FY2018 (Provisional) compared to 268 days in FY2017 and the collection period stood at 22 days in FY2018 (Provisional) as against 1 day in FY2017. Further, the average cash credit utilisation for the past six months stood at ~75 percent. Acuite believes that AOC will continue to manage its working capital cycle in order to maintain a stable credit profile.

Weaknesses

• Customer concentration and geographic concentration risk

The firm faces high customer concentration and geographic concentration risk. Its major customers are the local distributors in Punjab. The high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers. Further, its sales in and around Punjab accounts for more than 95 percent every year exposing AOC to a high geographic concentration.

• Competitive and fragmented industry

The firm operates in a highly competitive and fragmented industry and faces tough competition from various established players in the industry as well as several unorganised players which can have an impact on the bargaining powers with the customers and hence the margins.

Outlook: Stable

Acuite believes that the outlook on AOC will remain 'Stable' over the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm maintains its financial risk profile and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	89.25	31.17	41.71
EBITDA	Rs. Cr.	7.20	7.16	6.98
PAT	Rs. Cr.	-0.33	4.31	3.17
EBITDA Margin	(%)	8.07	22.96	16.72
PAT Margin	(%)	-0.37	13.81	7.59
ROCE	(%)	3.44	13.75	16.98
Total Debt/Tangible Net Worth	Times	1.70	1.81	1.15
PBDIT/Interest	Times	3.51	5.72	3.35
Total Debt/PBDIT	Times	4.30	4.48	2.17
Gross Current Assets (Days)	Days	124	342	138

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+ / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuute.in Manmitha Sodhi Analyst - Rating Operations Tel: 022-67141133 manmitha.sodhi@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuute.in

About Acuité Ratings & Research:

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