

Press Release

Amrit Oils And Chemicals

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January 18, 2019

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from **ACUITE BB+/Stable** to the bank facilities of AMRIT OILS AND CHEMICALS. The outlook is '**Stable**'.

Further, Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the bank facilities of AMRIT OILS AND CHEMICALS (AOC). The outlook is '**Stable**'.

Rating upgrade is on account of improvement in the business risk profile of the company and stabilizing of its rice bran division. Further Acuité derives comfort from constant support from the company's management in the form of unsecured loans and enhancement in its bank lines.

Established in 2010, AOC is a Punjab-based partnership firm promoted by Mr. Rajesh Gupta and Ms. Pushpa Devi. The firm is engaged in manufacturing of white washing soap and refining of rice bran oil. The firm has a capacity to refine 100 tonnes of rice bran daily which is ~80 percent utilised.

Analytical Approach

Acuité 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. Established track record of the promoters in the firm's line of business has helped the firm in establishing healthy relations with its customers and suppliers and in turn has also helped the firm in expanding its business and entering new segments. In the current year, AOC has also commenced trading in mustard oil.

• Healthy revenue growth

AOC has registered revenue growth with compounded annual growth rate (CAGR) of 29 percent during the last three years ended 31 March, 2018. It reported revenues of Rs.89.40 crore in FY2018 as against Rs.31.17 crore in FY2017. The significant increase in revenue is on account of addition of new line of business i.e. refining of rice bran oil. Further, the firm has booked revenue of ~Rs.60.00 crore for April to December, 2018, significant portion of the revenue is generally expected towards the last quarter based on the rice season.

• Moderate Financial Risk Profile

Financial risk profile of AOC is marked by moderate net worth of Rs.18.33 crore as on 31 March, 2018 compared to Rs.18.27 crore as on 31 March, 2017. The gearing stood at 1.70 times as on 31 March, 2018 against 1.81 times as on 31 March, 2017. Total debt of Rs.31.14 crore includes long term loan of Rs.2.86 crore, unsecured loans from friends and relatives of Rs.12.43 crore and short term working capital borrowings of Rs.15.85 crore as on 31 March, 2018. The interest coverage ratio stood at 3.50 times in FY2018 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 as against 1.89 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.17 times as on 31 March, 2018.

- **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 as compared to 342 days in FY2017. The GCA days are mainly dominated by high inventory holding of 106 days in FY2018 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. Acuité believes that AOC will continue to manage its working capital cycle in order to maintain a stable credit profile.

Weaknesses

- **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 could have an impact on the bargaining powers with the customers and hence, the margins.

- **Decline in profitability**

There has been a decline in the operating margins from 16.72 percent in FY2016 and 22.96 percent in FY2017 to 8.06 percent in FY2018. The decline in operating margins is mainly on account of manufacturing of rice bran oil which exhibits thin margins due to low value additive nature and is largely volume based. PAT margins declined to negative 0.37 percent in FY2018 against 13.81 percent in FY2017 and 7.59 percent in FY2016. Decline in PAT margins is due to additional depreciation charged on acquisition of new plant and machinery during the year attributable to refining division.

Outlook: Stable

Acuité believes that the outlook on AOC will remain 'Stable' over the medium term on account of its experienced management, healthy revenue growth on account of expansion into new line of business and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm maintains its financial risk profile while improving its profitability and 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 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	89.40	31.17	41.71
EBITDA	Rs. Cr.	7.21	7.16	6.98
PAT	Rs. Cr.	-0.34	4.31	3.17
EBITDA Margin	(%)	8.06	22.96	16.72
PAT Margin	(%)	-0.38	13.81	7.59
ROCE	(%)	3.42	13.75	35.82
Total Debt/Tangible Net Worth	Times	1.70	1.81	1.15
PBDIT/Interest	Times	3.50	5.72	3.35
Total Debt/PBDIT	Times	4.31	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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Sep-2018	Proposed Bank Facility	Long Term	INR 1.00	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	INR 10.00	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	15.00 (Enhanced from Rs. 10.00 crore)	ACUITE BBB-/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.56	ACUITE BBB-/ Stable (Assigned)
Cash Credit II	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/ Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/ Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE BBB-/ Stable (Upgraded)

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About Acuité Ratings & Research:

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