Press Release

Amrit Oils And Chemicals

August 07, 2020

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs.25.00crore bank facilities of Amrit Oils And Chemicals (AOC). The outlook is **'Stable'.**

Established in the year 2010, AOC is a Ludhiana-Punjab based partnership firm. The promoters of the firm are Mr. Rajesh Gupta and Mrs. Pushpa Devi. The firm is engaged in the business of manufacturing of whitewashing soap, refining of rice bran oil and trading of mustard oil and other vegetable oils.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

AOC was established in the year 2010. The partners of the firm have been engaged in the aforementioned business line for around a decade. The extensive experience of the partners has helped in establishing healthy relationships with its customers and suppliers. The key customers of the firm include names like Advance Chemical Company, Bajrang Lal Hitesh Kumar and Zaffron Oil Mill amongst others with no major concentration in revenues. The key suppliers include names like Adani Wilmar Limited, Modulus Cosmatic, Goyal MG Gases Private Limited, etc. to name a few.

Acuité believes that the firm will benefit from the extensive experience of the partners, healthy relationship with its customers and suppliers.

- **Healthy Financial Risk Profile**

AOC's financial risk profile is healthy, marked by moderate net worth, low gearing and healthy debt protection metrics. AOC's net worth is moderately estimated at around Rs.19.98crore (Prov.) as on March 31, 2020 as against Rs.18.40crore as on March 31, 2019. However, the net worth levels have seen improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period. The gearing remains low at around 0.62 times (Prov.) as on March 31, 2020 as against 2.05 times as on March 31, 2019. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stands at 0.73 times (Prov.) as against to 2.13 times in FY2019. The firm, on the other hand, generated cash accruals of Rs.2.66crore (Prov.) in FY2020 as against Rs.3.27crore in FY2019. AOC's cash accruals over the next two years through 2022 are estimated to remain in the range of Rs.2.88crore to Rs.3.22crore. The gearing, however, is expected to be low at around 0.60 times as on March 31, 2021 on back of absence of any major debt-funded capex plan.

The revenue of the firm has declined by around 34 percent to Rs.66.91crore (Prov.) in FY2020 from Rs.101.42crores in FY2019 while its operating margin has increased from 5.54 percent in FY2019 to 6.80 percent (Prov.) in FY2020. The PAT margin has increased from 0.46 percent in FY2019 to 0.59 percent (Prov.) in FY2020. The profitability levels, coupled with low debt levels, have led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were comfortable at 0.22 times (Prov.) and 2.40 times (Prov.), respectively.

- **Comfortable working capital management**

AOC's working capital is comfortable as it is reflected by its Gross Current Asset (GCA) days of around 91 (Prov.) in FY2020 as against 140 days in FY2019. The firm maintained an inventory of around 61 days (Prov.) as on 31 March, 2020 as against 106 days as on 31 March, 2019. AOC extends a credit period of 12 days (Prov.) as on March 31, 2020 to its customer. As a result, the reliance on working capital limit is low, leading to low utilization of its bank line at an average of ~26.31 percent over the last seven months through June 2020, while its peak utilization was high at around 53.40 percent during the same period. Acuite expects the working capital management to remain efficient over the medium term.

Weaknesses

- **Uneven revenue trend**

The operating income of the firm has declined by around 34 percent to Rs.66.91crore (Prov.) in FY2020 from Rs.101.42crore in FY2019. This has led to a decline in the EBITDA in absolute terms from Rs.5.62crore in FY2019 to Rs.4.55crore (Prov.) in FY2020. The decline in the operating income is due to a decline in the revenues from refining of rice bran oil.

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

Liquidity Position: Healthy

The firm has healthy liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.2.66crore (Prov.) in FY2020 as against its maturing debt obligations of Rs.0.40crore during the same period. The cash accrual of the company is estimated to remain around Rs.2.88crore to Rs.3.61crore during 2021-23 against repayment obligations of Rs.0.50crore during the same period. The firm's working capital operations is comfortable marked by the Gross Current Asset (GCA) days of 91 days (Prov.) for FY2020 as against 140 days in FY2019. The average bank limit utilization stood low at around 26.31 per cent for seven months ended June, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.47crore (Prov.) as on 31 March 2020. The current ratio stands at 1.82 times (Prov.) as on 31 March 2020. Acuité believes that the liquidity of the firm is likely to remain healthy over the medium term on account of moderate net cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Stretch in working capital cycle leading to deterioration in liquidity

Outlook: Stable

Acuité believes that AOC will maintain a stable outlook over the medium term backed by its experienced partners and established track record in the aforementioned industry. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in the operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20(Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	66.91	101.42
PAT	Rs. Cr.	0.40	0.47
PAT Margin	(%)	0.59	0.46
Total Debt/Tangible Net Worth	Times	0.62	2.05
PBDIT/Interest	Times	2.40	2.34

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Any Material Covenants
None

Applicable Criteria

- Default Recognition- https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
13-Apr-2020	Cash Credit	Long Term	15.00	ACUITE BB+ (Downgraded; Issuer Not Co-operating)
	Cash Credit	Long Term	3.00	ACUITE BB+ (Downgraded; Issuer Not Co-operating)
	Term Loan	Long Term	1.56	ACUITE BB+ (Downgraded; Issuer Not Co-operating)
	Overdraft	Long Term	5.00	ACUITE BB+ (Downgraded; Issuer Not Co-operating)
	Proposed Bank Facility	Long Term	0.44	ACUITE BB+ (Downgraded; Issuer Not Co-operating)
18-Jan-2019	Cash Credit	Long Term	15.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	3.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	1.56	ACUITE BBB-/ Stable (Assigned)
	Overdraft	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	0.44	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
07-Sept-2018	Cash Credit	Long Term	10.00	ACUITE BB+/ Stable (Assigned)
	Proposed	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	10.00	ACUITE BB+/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	April, 2017	Not Applicable	March,2022	0.79	ACUITE BB+/ Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.21	ACUITE BB+/ Stable (Reaffirmed)
Proposed Cash Credit Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/ Stable (Reaffirmed)

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