

Press Release
Omshree Agro Tech Limited

November 29, 2021



Rating Reaffirmed

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	20.00		ACUITE A3 Reaffirmed
Bank Loan Ratings	105.00	105.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	
Total	125.00	125.00	-	-

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 125.00 crores bank facilities of Omshree Agro Tech Limited (OATL). The outlook is changed to 'Negative' from 'Stable'.

Rationale for revision in outlook

The revision in outlook for the long term rating of Omshree Agro Tech Limited to Negative from Stable is driven by the deterioration in its credit profile on back of modest profitability. This modest profitability was primarily attributable to escalation in raw material prices and other related operating expenditure amid the Covid-19 pandemic-related disruptions. Despite booking higher revenue of Rs. 808.47 Cr for FY 2021 as against Rs. 691.03 Cr in FY2020, the company still managed modest profitability of 1.96 per cent for FY2021. Also, the interest charges increased for FY2021, which further depressed the net profits during the period. Going forward, OATL's ability to sustain its operating income while improving profitable operations will remain key rating sensitivities. Raw material prices in the food business are vulnerable to climatic conditions and agricultural output, which makes OATL's margins volatile, which has been a factor constraining OATL's rating.

However, the rating continues to draw comfort from the extensive experience of the promoters of OATL in the food processing industry, their established relationships with customers and healthy scale of operations.

About the Company

Incorporated in 2005, OATL is engaged in the extraction of soyabean oil. The day to day operations are managed by its directors, Mr. Sunil Hansraj Agarwal, Mr. Mahendra Omkar Agarwal, Mr. Subhash Omkar Agarwal and Sachin Mahendra Agarwal who has an experience of over two decades in the vegetable oils and product industry. OATL has a capacity to process 600 tonnes of soyabean seed per day. It is located in Dhule, MIDC area on 250,000 sq.ft. of land

Analytical Approach

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

Key Rating Drivers

Strengths

>Experienced promoters

The day to day operations are managed by its director, Mr. Sunil Hansraj Agarwal, Mr. Mahendra Omkar Agarwal, Mr. Subhash Omkar Agarwal and Sachin Mahendra Agarwal who has an experience of over two decades in the vegetable oils and product industry. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers. Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers and suppliers.

>Healthy scale of operations

The company reported healthy revenue growth marked by Compounded Annual Growth Rate (CAGR) of 12.11 per cent for the past 4 years ending FY2021. The operating revenue stood at Rs. 691.03 crore in FY2020 as against Rs. 645.49 crore in FY2019. It has further increased by ~17 per cent marked by operating revenue of Rs.808.47 crore in FY2021. This is majorly due to the increase in volume sales. Acuite believes that the scale of operations is expected to increase in near medium term majorly due to healthy demand for edible oils. Company has registered revenue of around Rs. 730.36 crore for the period April to Sep, 2021.

>Moderate Financial risk profile

The financial risk profile of the company stood moderate marked by moderate net worth, moderate coverage metrics. The net worth of the company stood at Rs.44.02 crore as on 31 March 2021 as against Rs.36.15 crore as on 31 March 2020. The gearing (debt-equity) of the company deteriorated and stood at 1.95 times as on 31 March 2021 as against 1.26 times as on 31 March 2019. Total debt of the company which stood at Rs. 85.91 crore as on 31 March, 2021 comprises only of short term debt. Coverage metrics stood moderate marked by interest coverage ratio (ICR) of 3.67 times in FY2021 i.e. a dip as against 5.60 times in FY2020. Debt Service Coverage ratio stood at 3.02 times in FY2021 as against 4.45 times in FY2020.

Weaknesses

>Modest profitability

Operating margins stood at modest levels marked by 1.96 per cent in FY2021 . The prices of raw material i.e. soya bean seeds have increased sharply which is why the margins have remained at modest levels. Further, Profit after Tax (PAT) has stood at 0.97 per cent in FY2021 as against 1.09 per cent in FY2020.

Also, the margins of the company are susceptible to volatility in raw material prices, which have been uneven during the period under study. Any significant changes in raw material prices due to import pressure and oversupply would have an impact on the revenues and margins of the company.

>Raw material prices are vulnerable to climatic conditions and agricultural output

The key raw material procured by OATPL is soyabean seed. Being agro-product, Soyabean seed is vulnerable to agro-climatic conditions, which affect their availability and price. As food processing business is raw material intensive, any inability to pass on the price risks has a critical bearing on the profitability metrics.

Liquidity Position: Adequate

The liquidity position of the company is adequate marked by net cash accruals to its maturity debt obligations. Company generated net cash accruals of Rs.8.72 crore as against no debt obligations for the same period. Going forward it is expected that the net cash accruals will remain in the range of Rs.10.74 crore to Rs.12.73 crore in FY2022-2023. The company maintained unencumbered cash and bank balance of Rs.0.05 crore as on 31 March, 2021. Current ratio of the company stood at 1.29 times as on 31 March, 2021. Further, the average utilization for fund based facility stood at ~33 percent for the last six month ending October 2021.

Rating Sensitivities

- >Sustained growth in operating performance with improvement in profitability, improvement in the financial risk profile
- >Slowdown in industry leading to inventory pile up.

Material covenants

None

Outlook: Negative

The outlook revision to 'Negative' is primarily driven by modest profitability due to pressure from volatility in raw material prices. The rating may come under pressure in case of a further decline in profitability and debt protection metrics. Conversely, the outlook may be revised to 'Stable' in case the company registers higher-than-expected growth in its profitability with improvement in its debt profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	808.47	691.03
PAT	Rs. Cr.	7.88	7.53
PAT Margin	(%)	0.97	1.09
Total Debt/Tangible Net Worth	Times	1.95	1.26
PBDIT/Interest	Times	3.67	5.60

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Nov 2020	Working Capital Demand Loan	Long Term	3.50	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Working Capital Demand Loan	Long Term	40.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Bank Facility	Long Term	0.80	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Standby Line of Credit	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	35.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Proposed Bank Facility	Long Term	1.20	ACUITE BB (Downgraded and Issuer not co-operating*)

27 Jul 2020	Standby Line of Credit	Short Term	5.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	35.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	30.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
08 Nov 2019	Letter of Credit	Short Term	15.00	ACUITE A3 (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	30.00	ACUITE BBB- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	1.20	ACUITE BBB- (Issuer not co-operating*)
	Cash Credit	Long Term	35.00	ACUITE BBB- (Issuer not co-operating*)
	Standby Line of Credit	Short Term	5.00	ACUITE A3 (Issuer not co-operating*)
10 Oct 2018	Cash Credit	Long Term	35.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	30.00	ACUITE BBB- Stable (Assigned)
	Standby Line of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	1.20	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	35.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	15.00	ACUITE A3 Reaffirmed
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	19.68	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	5.00	ACUITE A3 Reaffirmed
State Bank of India	Working Capital Demand Loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	3.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Working Capital Demand Loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	40.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Working Capital Demand Loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	6.82	ACUITE BBB- Negative Reaffirmed Stable to Negative

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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