

Press Release

Rajkamal Agro Industries

December 16, 2019



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 18.00 crore
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded from BB-)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and has reaffirmed the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.18.00 crore bank facilities of Rajkamal Agro industries (RAI). The outlook is '**Stable**'.

The upgrade is on account of continuous improvement in operating income, financial risk profile and working capital management. The operating income of the firm has increased to Rs.108.33 crore in FY 2019 from Rs.94.82 crore in FY2018. The financial risk profile of the firm has improved marked by improvement in gearing and coverage indicators. Gearing has improved to 0.62 times as on 31 March 2019 from 1.32 times in the previous year. Interest coverage and Debt-EBITDA have improved to 1.52 times and 5.96 times respectively for FY2019. Further, the working capital has improved marked by Gross Current Asset of 97 days for FY2019 as against 142 days in the previous year. This has led to firm's lower reliance over external working capital evident from decline in interest cost despite increase in revenues.

Incorporated in 2005, Rajkamal Agro industries is a Deesa (North Gujarat) - based partnership firm. The firm was established by Mr. Ratanlal Babulal Agarwal and Mr. Hansrajbhai Babulal Agarwal. The firm is engaged in manufacturing, processing and exporting of hulled, natural and black sesame seed. The firm exports the sesame seeds to countries like- UK, Europe, Turkey, Russia, Sudan, etc. to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

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

Rajkamal Agro Industries is headed by Mr. Ratanlal Babulal Agarwal and Mr. Hansrajbhai Babulal Agarwal, who have an experience of more than a decade in agro industry. The same has helped the firm in establishing healthy relationships with its customers and suppliers. The firm caters to customers like VVV & Sons Edible Oils Limited, Unicorn Ingredients Limited among others with no major concentration in

its revenue profile. On the back of the stable and repeated orders by the key customers, the revenues has improved to Rs.108.33 crores in FY2019 from Rs.94.82 crore in the previous year.

- **Healthy financial risk profile**

Rajkamal Agro Industries' financial risk profile is healthy, marked by a moderate net worth, low gearing and healthy debt protection metrics.

Rajkamal Agro Industries' net worth is moderate which stood Rs.19.89 crores as on March 31, 2019 as against of Rs.16.66 crore in FY2018. The net worth levels have seen significant improvement over the last three years through FY 2019 on account of moderate accretion to reserves during the same period.

The firm has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.32 and 1.45 times as on March 31, 2018. The leverage levels continue to remain low at around 0.62 times as on March 31, 2019. The total debt of Rs.12.28 crore as on 31 March 2019 comprises long term debt of Rs. 0.12 crore and working capital borrowings of Rs. 12.16 crore. Rajkamal Agro Industries' moderate cash accruals, to the tune of about Rs. 0.71 crores have supported in minimizing the reliance on external debt leading to healthy gearing and debt levels of 0.62 times and Rs. 0.12 crores as on March 31, 2019. Rajkamal Agro Industries' cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 1.05 crores to Rs. 1.18 crore against no repayment obligations during the same period. As a result, the gearing is expected to remain low on back of absence of any major debt funded capex plan.

- **Improvement in Working Capital Management**

Rajkamal Agro Industries' working capital has improved marked by gross current asset (GCA) days of 97 days as on March 31, 2019 as against 142 days in the previous year. The firm maintains an inventory period of around 12 days. As a result, the reliance on working capital limits is low, leading to low utilization of its bank lines at an average of 55 per cent over the last twelve months through October 2019. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the firm.

Weaknesses

- **Modest scale of operations**

The firm has a presence of over 15 years in the industry. Despite its presence in the industry for over 15 years the operations of the firm have remained modest marked by operating income of Rs.108.33 crore in FY2019 as compared to Rs. 94.82 crore in FY2018. Being an exporter, the revenue of Rajkamal Agro Industries depends on the tariffs imposed by the government on the goods.

- **Susceptibility of operating margins to volatility in raw material prices**

Rajkamal Agro Industries manufactures hulled, natural and black sesame seed, which is sold to key customers like VVV and Sons Edible Oils Limited, Unicorn Ingredients Limited amongst others, wherein the company has limited bargaining power due to high competitive pressures within the industry. The company on the other hand procures sesame seeds through import as well as from domestic markets, the prices of which have remained volatile in the past. Further, Rajkamal Agro Industries has limited flexibility while passing on the raw material price changes to the customers leading to volatile profitability as reflected in 0.47-0.16 per cent over the last three years.

Rating sensitivity factor

- Significant improvement in operating income while maintaining its profitability
- Deterioration in working capital leading to deterioration in liquidity profile

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.71 crore in FY2019 as against maturing debt obligations of around Rs. 0.12 crore during the same period. The cash accruals of the firm are estimated to remain around Rs. 1.05 crore to Rs. 1.18 crore during 2020-22 against no repayment obligations during the same period. The firm's working capital operations have improved marked by gross current asset (GCA) days of 97 days for FY2019 as against 142 days in the previous year. The firm maintains unencumbered cash and bank balances of Rs. 3.24 crore as on 31 March 2019. The current ratio stands at 2.19 times as on 31 March 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy net cash accruals against no debt obligation.

Outlook: Stable

Acuité believes that Rajkamal Agro Industries will continue to benefit over the medium term due to its long track record of operations and experienced management. 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 firm generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins or deterioration in working capital management.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	108.33	94.82
PAT	Rs. Cr.	0.17	0.15
PAT Margin	(%)	0.16	0.16
Total Debt/Tangible Net Worth	Times	0.62	1.32
PBDIT/Interest	Times	1.52	1.48

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

Not Applicable

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>
- 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/criteria-complexity-levels.htm>

Rating History (Up to previous three years)

Date	Name of the instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
November 26, 2018	Cash Credit	Long term	12.00	ACUITE BB-/ Stable (Assigned)
	Proposed Bank Facility	Short term	5.99	ACUITE A4+ (Assigned)
	Bank Guarantee	Long term	0.01	ACUITE BB-/ Stable (Assigned)

*Sub-limit of non-peak season is Rs.7.00 crore.

*Sub-limit of PC (Hypo)/PCFC cum FBP/FBD/FCBP/FCBD/UFBP/PSDL (DA – 90 days) in foreign currency as well as INR of Rs. 1.00 crore.

*Sub-limit of foreign LC of Rs1.00 crore

*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	17.99*	ACUITE BB/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE A4+ (Reaffirmed)

*Sub-limit of non-peak season is Rs.13.00 crore.

*Sub-limit of PC (Hypo)/PCFC cum FBP/FBD/FCBP/FCBD/UFBP/PSDL (DA – 90 days) in foreign currency as well as INR of Rs.10.00 crore.

*Sub-limit of foreign LC of Rs1.00 crore

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About Acuité Ratings & Research:

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