

Press Release

Rajkamal Agro Industries

December 03, 2020

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.20.00 Cr. (Enhanced from Rs.18.00Cr)
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and 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**'.

Also, ACUITE has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.2.00 crore bank facilities of RAI. The outlook is '**Stable**'.

Established in the year 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. The company has an installed capacity of 50 MT/Day.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operation and experienced Management

Rajkamal Agro Industries was established in the year 2005. The partners of the firm are 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 exports the sesame seed to countries like UK, Europe, Turkey, etc. The firm procures the raw material both from the domestic market as well as imports from countries like-Sudan. On the back of the stable and repeated orders by the key customers, the revenues have improved to Rs.111.31Cr (Prov.) in FY2020 from Rs.108.33Cr in FY2019.

Acuite believes that RAI will sustain its existing business risk profile on the back of experienced management, long track record of operation and healthy relationships with its customers and suppliers.

• Healthy financial risk profile

RAI's financial risk profile is healthy marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth of the firm stood at Rs.23.46Cr (Prov.) as on March 31, 2020 as against Rs.19.89Cr as on March 31, 2019. The firm has followed 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 1.36times and 1.45 times respectively as on March 31, 2018. The gearing continues to remain low at around 0.38 times (Prov.) in FY2020 as against 0.62 times in FY2019. The company incurred capex of Rs.1.68Cr over the last year to expand its scale of operation, while its' incremental working capital

requirement over the same period to support the increase in scale of operation has been around Rs.0.19Cr. The firm, on the other hand, generated cash accruals in the range of Rs.0.60 Cr to Rs.0.80Cr over the same period. RAI's cash accrual over the next three years through FY2023 is estimated to remain in the range of Rs.0.70Cr to Rs.1.20Cr. The gearing, however, is expected to be low at around times 0.50 times as on March 31, 2021 on back of absence of any major debt funded capex plan.

The revenue of the firm has improved by around 2.75 percent to Rs.111.31 Cr (Prov.) in FY2020 as against Rs.108.33Cr in FY2019. EBITDA in absolute term has declined significantly to Rs1.14Cr (Prov.) in FY2020 as against Rs.2.01Cr in FY2019. This is due to the fluctuation in the price of sesame seeds. The operating margins have declined to 1.02percent (Prov.) in FY2020 as against 1.86 percent in FY2019. The low profitability levels, coupled with moderate debt levels, have led to healthy debt protection metrics. The NCA/TD and interest coverage ratio stood at 0.08 times (Prov.) and 2.30 times (Prov.) respectively in FY2020 as against 0.06 times and 1.52 times respectively in FY2019. The Debt-EBITA ratio stood at 7.20 times (Prov.) in FY2020 as against 5.96 times in FY2019.

- **Working Capital operation is moderately intensive in nature**

RAI's working capital operation is moderately intensive in nature marked by gross current asset (GCA) days of around 104 days (Prov.) in FY2020 as against 97 days in FY2019. The firm had maintained an inventory holding period of around 15 days (Prov.) as on March 31, 2020 as against 12 days as on March 31, 2019. RAI had extended a credit period of around 78 days (Prov.) as on March 31, 2020 to its customer as against 69 days as on March 31, 2019. On the other hand, the firm's credit payment period to its supplier is around 14 days (Prov.) as on March 31, 2020 as against 5 days as on March 31, 2019. The working capital limit is moderate, leading to low utilization of its bank line at an average of around 20.09 percent over the last six months through September, 2020, while its peak utilization was high at around 40.17 percent during the same period. Acuite believes that the working capital operations of the firm will improve and will remain efficient over the medium term on account of lean inventory levels maintained by the firm.

Weaknesses

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

Rajkamal Agro Industries processes hulled, natural and black sesame seed, which is exported to countries like UK, Europe, Turkey, etc. wherein the firm has limited bargaining power due to high competitive pressures within the industry. The firm, 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 operating margins of 2.16-1.02 per cent over the last three years.

- **Modest Scale of operation**

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.111.31Cr (Prov.) in FY2020 as compared to Rs.108.33Cr in FY2019. Being an exporter, the revenue of Rajkamal Agro Industries depends on the tariffs imposed by the government on the goods.

Liquidity Position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals to nil maturing debt obligations. The firm generated cash accruals of Rs.0.71Cr (Prov.) in FY2020 as against nil maturing debt obligations during the same period. The cash accrual of the firm is estimated to remain around Rs.0.75Cr to Rs.1.00Cr during FY2021-2023 against repayment obligation of Rs.0.30Cr to Rs.0.70Cr during the same period. The firm's working capital operation is moderately intensive in nature marked by gross current asset (GCA) days of 104 days (Prov.) for FY2020. The average bank limit utilization stood at 20.05 percent for the last six months ended September, 2020. The firm maintains unencumbered cash and bank balances of Rs.2.48Cr as on March 31, 2020 as against Rs.3.24Cr as on March 31, 2019. The current ratio has increased to 2.74 times (Prov.) as on March 31, 2020 as against 2.19 times as on March 31, 2019. Acuite believes that the liquidity of the firm to remain adequate over the medium term on account of adequate net cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Any deterioration in the working capital cycle and liquidity profile of the firm
- Significant improvement in the operating performance of the firm while maintaining its profitability

Outlook: Stable

Acuite believes that RAI will maintain a 'Stable' outlook over the medium term on the back of its experienced management in the aforementioned industry and long track record of operation. The outlook may be revised to 'Positive', if the firm demonstrates higher than expected growth in its revenue and profitability from the current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the firm faces any stretch in the working capital management or decline in the profitability leading to deterioration in the financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	111.31	108.33
PAT	Rs. Cr.	0.19	0.17
PAT Margin	(%)	0.17	0.16
Total Debt/Tangible Net Worth	Times	0.38	0.62
PBDIT/Interest	Times	2.30	1.52

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

CARE vide its press release dated July 15, 2020 has denoted Rajkamal Agro Industries as 'CARE B/Stable/A4/Issuer Not Co-Operating'.

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>

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
16-Dec-2019	Cash Credit	Long term	17.99*^#	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
	Bank Guarantee	Short term	0.01	ACUITE A4+ (Reaffirmed)
26-Nov-2018	Cash Credit	Long term	12.00	ACUITE BB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	5.99	ACUITE BB-/Stable (Assigned)
	Bank Guarantee	Short term	0.01	ACUITE A4+ (Assigned)

*Includes sublimit of Rs.13.00Cr as Non-Peak Season Working Capital requirement

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

#Includes sub-limit of Rs.1.00Cr as Foreign LC

*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 (Reaffirmed)
Term loans	October, 2021	7.50%	October, 2024	2.00	ACUITE BB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE A4+ (Reaffirmed)

*Includes sublimit of Rs.13.00Cr as Non-Peak Season Working Capital requirement

^Includes sub-limit of Rs.10.00Cr as PC (Hypo)/PCFC cum FBP/FBD/FCBP/FCBD/UFBP/PSDL (DA – 150 days) in foreign currency as well as INR

#Includes sub-limit of Rs.2.30Cr as Foreign LC (Usance – 150 days)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Kumar Abhisek Analyst - Rating Operations Tel:011-49731308 kumar.abhisek@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

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 8,445 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité's rating scale and its definitions.