

Press Release

Manish Agrotech Limited

January 17, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs.11.00 crore bank facilities of MANISH AGROTECH LIMITED (MAL). The outlook is '**Stable**'.

MAL was incorporated in 1996 by the Chothwani family. The commercial production of the company started in 2008. MAL, located in the Dhar District of Madhya Pradesh, is engaged in the manufacturing and trading of soya oil and soya de-oiled cakes with an installed capacity to manufacture 500 MT of soya oil per day. The company has also set up an edible oil refinery with an installed capacity of 100 MT to refine the crude oil extracted in the process.

Analytical Approach

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

Key Rating Drivers

Strengths

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

MAL started its operations in 2008. Before promoting MAL, the promoters have been engaged in the edible oil industry for almost 3 decades. Acuite believes that MAL will be able to maintain good relations with its customers and suppliers backed by long track record and promoters' extensive experience.

- **Moderate working capital operations**

The company has moderate working capital operations marked by Gross Current Assets (GCA) of 108 days in FY2019 as against 68 days in FY2018. Increase in GCA days is majorly on account of high inventory holding period and receivables in FY2019 and FY2018. The inventory holding period stood at 66 days as on 31 March, 2019 as against 29 days as on 31 March, 2018. The receivables days also increased to 31 days as on 31 March, 2019 as against 19 days as on 31 March, 2018.

Acuite believes that the ability of the company to maintain its working capital operations will be key rating sensitivity.

Weaknesses

- **Average financial risk profile**

The financial risk profile has remained average marked by tangible net worth of Rs.21.87 crore as on 31 March, 2019 as against Rs.20.88 crore as on 31 March, 2018. The gearing (debt-to-equity) stood comfortable at 0.91 times as on 31 March, 2019 as against 80 times as on 31 March, 2018. The total debt outstanding of Rs. 19.99 crore as on 31 March, 2019 consist of long term borrowing of Rs.4.44 crore, unsecured loans of Rs.0.43 crore and working capital borrowing of Rs.15.13 crore. The interest coverage ratio stood at 2.01 times for FY2019 as against 1.76 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) increased to 3.12 times as on 31 March, 2019 as against 1.85 times as on 31 March, 2018. The net cash accruals stood at Rs. 1.80 crore in FY2019 as against the repayment obligation of Rs. 1.65 crore in FY2018.

Acuite believes that the firm's ability to register significant growth in its revenues while improving its profitability are key rating sensitivity factors over the medium term.

• **Susceptibility to fluctuations in raw material price**

MAL is engaged in the extracting and refining of edible oil. The prices of crude edible oil are volatile in nature; hence, the profitability is highly susceptible to the ability of the company to pass on the same to its customers.

The company has shown stagnant revenue trend marked by operating income of Rs.285.78 crore for FY2019 and Rs.286.01 crore for FY2018. The operating income stood at Rs. 274.42 crores for the period April to December, 2019. The stagnation in revenue in FY2019 was on account of crop damage which led to poor quality of soybean thereby affecting the quality of oil. Further, the company reported EBITDA margin of 1.51 percent in FY2019 as against 1.94 percent in FY2018 and 1.29 percent in FY2017.

Acuite believes the company's ability to register growth in revenue while maintaining adequate profitability will be key sensitivity factor.

Rating Sensitivities

- Substantial reduction in GCA days to around 150-200 days.
- Substantial improvement in scale of operation (~Rs. 310.00-330.00 crore), while maintaining profitability margin of around 2.0-3.0 per cent over the medium term.

Material Covenants

None

Liquidity position: Stretched

The liquidity of the company is stretched marked by net cash accruals tightly matching the repayment obligation. The company generated cash accruals of Rs. 1.4-2.0 crore during the last three years through 2017-19; while the maturing debt obligations were in the range of Rs. 1.6 crore over the same period. Working capital borrowings in the company remained utilised fully. The company maintains cash and bank balances of Rs.0.11 crore as on March 31, 2019. The current ratio stood moderate at 1.31 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals and high debt repayment obligations.

Outlook: Stable

Acuite believes that MAL will maintain a 'Stable' outlook and benefit over the medium term from its experienced management and moderately working capital operations. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and profitability margins while managing its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profitability or elongation in the working capital cycle leading to deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	285.78	286.01
PAT	Rs. Cr.	1.10	1.22
PAT Margin	(%)	0.38	0.43
Total Debt/Tangible Net Worth	Times	0.91	0.80
PBDIT/Interest	Times	2.01	1.76

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.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-Jan-2019	Cash Credit	Long Term	10.00	ACUITE BB- /Stable (Assigned)
	Proposed Long Term Bank Facility	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)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- /Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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