

Press Release

RSH Agro Products Limited



D-U-N-S® Number: 87-680-8857

February 05, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 45.00 crore bank facilities of RSH Agro Products Limited (RAPL). The outlook is '**Stable**'.

Incorporated in 2012, RAPL is an Assam based company promoted by Mr. Kamal Kumar Harlalka and Mr. Hemant Harlalka. The company is into manufacturing and refining of mustard oil, RBD Palmolein Oil and Blended Edible Vegetable Oils (BEVO). The company's extraction unit for mustard seed milling has an installed capacity of 21,000 Metric Tonnes per annum (MTPA) and blending of other oils processing capacity stood at 24,000 Metric Tonnes per annum (MTPA). RAPL sells its produce under several brand names, such as, Prime, Anmol, Swad, and others, mainly to the north eastern states of India.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The company is promoted by Mr. Kamal Kumar Harlalka and Mr. Hemant Harlalka have an experience of over three decades in the industry by virtue of employment in group concerns, namely, R.S.H. Agro Products, and others which were mainly involved in trading of edible oil. RAPL is expected to continue to leverage from its well established relationships with customers and suppliers. The company is building strong marketing and distribution network in its catchment area and this has helped in its existing network for sales.

- **Healthy financial risk profile**

The company has healthy financial risk profile marked by tangible net worth of Rs.30.46 crore as on 31 March, 2018 as against Rs.14.80 crore as on 31 March, 2017; the improvement is mainly due to accretion to reserves apart from equity infusion. The gearing stood at 1.27 times as on 31 March, 2018 as against 2.47 times as on 31 March, 2017; improvement in gearing level is due to improvement in the net worth levels. The total debt of Rs.38.60 crore consist of term loan outstanding to the tune of Rs.2.85 crore, unsecured loan of Rs.4.78 crore, short term debt of Rs.30.36 crore and current maturities of long term debt (CPLTD) of Rs.0.60 crore as on 31 March, 2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 1.90 times as on 31 March, 2018 as against 3.69 times as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 3.42 times in FY 2018 as against 3.78 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 3.02 times in FY 2018 as against 2.62 times in FY2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.31 times as on 31 March, 2018 as against 0.14 times as on 31 March, 2017.

- **Improvement in revenue with high and stable profitability**

RAPL has reported significant growth of ~92 percent in operating income which stood at Rs.226.43 crore for FY2017-18 as against Rs.117.49 crore in the previous year mainly due to acquiring of more dealers, while the dealer network is currently at around 250 spread across the north east. The company has been growing at a CAGR of 80.91 percent from FY2016 to FY2018. The company has reported operating income of around Rs.141.22 crore for the period during April to October, 2018 (Provisional).

The operating margins have remained in the range of 7.05 percent to 9.96 percent in the past three years ended FY2018. The operating margins declined from 9.96 percent in FY2016 to 7.05 percent in FY2017 and 7.42 percent in FY2018, mainly because of diversification in the revenue mix. The PAT margin has improved and the same stood high at 4.61 percent in FY2018 from 3.13 percent in FY2017, mainly because of the tax exemption available for the company's manufacturing unit which is located in a special economic zone (SEZ).

Weaknesses

- **Working capital intensive nature of operations**

The working capital operations are intensive marked by Gross Current Asset (GCA) of 109 days in FY2018 compared to 178 days in FY2017. The GCA days are dominated by inventory days of 80 days in FY2018 compared to 134 days in FY2017, mainly because of procurement of key raw material from other states such as Rajasthan, Haryana and other northern states. The debtor days stood comfortable at 15 days for FY2018 and 33 days for FY2017 majorly because there is limited credit period provided in dealer network operations. The working capital intensity is further reflected from the bank limit utilisation of ~ 87 percent of its working capital facilities.

- **Susceptibility of profitability to volatility in raw material prices**

Oilseed production in India is insufficient to meet rising demand in India, thus, gap between demand and supply is generally met through imports. The prices are determined by global forces of demand and supply which results in volatility in prices both at input level as well as at end product level. Moreover, government intervenes at regular intervals in the form of changes in duty structure to protect the interest of refiners and to narrow the gap between duties on crude oil and refined oil. Also, oilseed production is exposed to vagaries of nature.

Liquidity Position

RAPL has a moderate liquidity position. The company's net cash accruals stood at Rs.11.85 crore in FY2018 with minimum maturing debt obligations, over the same period, of Rs.0.60 crore. RAPL's operations are working capital intensive as marked by gross current asset (GCA) days of 109 in FY 2018. The current ratio of the company stood moderate at 1.39 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes that the outlook on RAPL's rated facilities will remain 'Stable' over the medium term on account of the company's experienced management. The outlook may be revised to 'Positive' if the company registers a sustained growth in revenue and profit margins, and improve its working capital operations. Conversely, the outlook may be revised to 'Negative' if there is significant deterioration in the company's capital structure on account of larger than envisaged debt funded capex and working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	226.43	117.49	38.24
EBITDA	Rs. Cr.	16.81	8.28	3.81
PAT	Rs. Cr.	10.44	3.68	0.64
EBITDA Margin	(%)	7.42	7.05	9.96
PAT Margin	(%)	4.61	3.13	1.67
ROCE	(%)	25.96	15.10	12.16
Total Debt/Tangible Net Worth	Times	1.27	2.47	3.21
PBDIT/Interest	Times	3.42	3.78	2.38
Total Debt/PBDIT	Times	2.27	4.38	7.88
Gross Current Assets (Days)	Days	109	178	266

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*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	25.00	ACUITE BBB / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB / Stable
FLC/ILC	Not Applicable	Not Applicable	Not Applicable	17.70	ACUITE A3+
ILG	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A3+

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About Acuité Ratings & Research:

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