

## Press Release

### Aradhya Chemicals And fertilizers

D-U-N-S® Number: 86-317-0009

March 08, 2019

#### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 8.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

#### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 8.00 crore bank facilities of Aradhya Chemicals Andfertilizers (ACF). The outlook is '**Stable**'.

Established in 2010, Aradhya Chemicals and Fertilizers (ACF) is engaged in manufacturing of NPK fertilizers. The product line includes NPK fertilizers 17:17:17, 20:20:0, 14:06:21 and CMS fertilizers 10:05:05. The day to day operations are managed by its Partners, Mr. I S Prasanna, Mr. I P Prasheel Aradhya, Mr. I P Prajwal Aradhya and Mr. Mallappa S Angadi. The manufacturing unit is located at Mallashettihalli in Davangere (Karnataka) with installed capacity of 10 tonnes per hour.

#### Analytical Approach

Acuite has considered standalone business and financial risk profile of ACF to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management**

The firm is promoted by its Managing Partner, Mr. I S Prasanna along with other partners, I P Prasheel Aradhya, I P Prajwal Aradhya and Mallappa S Angadi who collectively possess experience of more than three decades in agriculture industry. The extensive experience has enabled the firm forge healthy relationships with customers and suppliers. Acuite believes that ACF will continue to benefit from its experienced management and established relationships with customers.

##### Weaknesses

- **Modest scale of operations and fluctuating profitability**

The scale of operations of the firm are modest marked by operating revenues of Rs.11.08 crore in FY2018 as against Rs.5.55 crore in FY2017. The operating margins of the firm are fluctuating marked by 15.68 percent in FY2018, 18.06 percent in FY2017 and 12.02 percent in FY2016.

- **Average financial risk profile**

The financial risk profile is average marked by low net worth and average debt protection measures and gearing. The net worth of the firm stood low at Rs.2.61 crore as on 31 March, 2018 as against Rs.3.04 crore as on 31 March, 2017. The gearing (debt to equity) stood high at 3.69 times as on March 31, 2018 as against 1.55 times as on March 31, 2017. Total debt of Rs.9.63 crore consist of term loans of Rs.3.74 crore, working capital facility of Rs.3.23 crore and unsecured loans from related parties of Rs.2.67 crore as on 31 march, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 6.41 times as on 31 March, 2018 as against 2.19 times as on 31 March, 2017. The modest revenue levels coupled with fluctuating operating margins have resulted in average debt protection measures. Interest Coverage Ratio (ICR) stood at 2.45 times in FY2018 (Provisional) from 5.67 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.87 times as on 31 March, 2018 as against 1.74 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 2.23 times in FY2018 as against 1.74 times in FY2017.

• **Intensive working capital operations**

ACF has intensive working capital operations marked by high Gross Current Assets (GCA) of 482 days in FY2018 as against 337 days in FY2017. The inventory and debtors levels stood at 256 and 258 days in FY2018 as against 264 and 118 days in FY2017, respectively. As a result, the average utilisation of bank limits stood at ~90 per cent in the last six months. Acuite believes that the working capital requirements will continue to remain intensive over the medium term on account of the nature of the business.

• **Highly fragmented industry and agro-climatic risk**

Indian fertilizers industry is highly fragmented sector having large number of players from unorganised sector. In this industry, the barriers to entry are very low on account of low capital investment requirement. Further, the operations of the firm are exposed to agro-climatic risk as it is highly dependent upon the rainfall. Any adverse climatic changes may severely impact the business of the firm.

**Liquidity Position**

ACF has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.38 to 0.89 crore during the last three years through 2017 -18, while its maturing debt obligations were in the range of Rs.0.57 to 1.80 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.1.31 to 2.29 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 1.78 Crore. The firm's operations are working capital intensive as marked by high gross current asset (GCA) days of 482 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the firm remains utilized at 90 percent during the last 6 months period ended January 2019. The firm maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2018. The current ratio of the group stands moderate at 1.20 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accrual and modest scale of operations.

**Outlook: Stable**

Acuite believes that ACF will maintain 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in ACF's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

**About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.08	5.55	7.20
EBITDA	Rs. Cr.	1.74	1.00	0.87
PAT	Rs. Cr.	0.34	0.03	0.07
EBITDA Margin	(%)	15.68	18.06	12.02
PAT Margin	(%)	3.10	0.54	1.02
ROCE	(%)	12.22	7.74	14.10
Total Debt/Tangible Net Worth	Times	3.69	1.55	1.55
PBDIT/Interest	Times	2.45	1.74	1.79
Total Debt/PBDIT	Times	5.46	4.71	5.55
Gross Current Assets (Days)	Days	482	337	235

**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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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)

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	3.50	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.17	ACUITE B / Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.93	ACUITE B / Stable

### Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Saurabh Rane Analyst - Rating Operations Tel: 02249294044 <a href="mailto:Saurabh.Rane@acuiteinratings.in">Saurabh.Rane@acuiteinratings.in</a></p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

### About Acuite Ratings & Research:

Acuite Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Acuite 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. Acuite 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuite.