

Press Release

Aradhya Chemicals and Fertilizers

October 10, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.40	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	7.60	ACUITE B+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	8.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for Upgrade

Rating has been upgraded on account of improvement in scale of operations and increase in net worth leading to improved financial risk profile. Firm's operating income has been improving since experiencing a dip in FY 2020 and has surpassed pre covid levels. In the last 3 years' firm has registered improvement in operating income. Firm's revenue has improved from Rs. 13.13 Cr in FY 2020 (Audited) to Rs. 17.58 Cr in FY 2021 (Audited) and stood at Rs. 19.31 Cr in FY 2022 (Provisional). Firm's financial risk profile is average with low net worth and average debt protection metrics. However since the firm has refrained from withdrawing in partner's capital account this has led to increase in the reserve and has resulted in improvement in gearing in the past 3 years.

About the Company

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. Acuité believes that ACF will continue to benefit from its experienced management and established relationships with customers.

Weaknesses

Average financial risk profile

Firm's financial risk profile is average marked by low net worth and average gearing and debt protection metrics. Net worth of the firm stood low at Rs. 5.56 Cr as on 31st March 2022. Total debt of Rs. 11.89 Cr in FY 2022 consists of Rs. 3.14 Cr of long term debt, Rs. 1.46 Cr of Unsecured loans and Rs. 7.28 Cr of working capital borrowings. Consequently, gearing for FY 2022 stood at 2.14 times. Gearing has improved from the previous fiscals with increase in net worth over the time since the partner's capital account has not been withdrawn in the previous fiscals. NCA/TD improved to 0.12 times while TOL/TNW stood moderate at 2.75 times and Debt-Ebitda stood high at 6.08 times in FY 2022. Going forward the financial risk profile is expected to remain average in the absence of any debt funded capex plan.

Intensive working capital operations

Firm's operations are working capital intensive marked by GCA days of 326 in FY 2022. High GCA day is a result of high inventory holding and debtor realization period. Inventory holding period stood at 95 days while debtor period stood at 233 days in FY 2022. Creditor period stood at 87 days in FY 2022. Hence, as a result bank limit utilization remained high at 95.86% in the 16 months' period between April 2021 and July 2022.

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.

Rating Sensitivities

- Scale of operations and profitability.
- Working Capital Management.

Material covenants

None.

Liquidity Position

Stretched

Firm's liquidity position is stretched marked by low net cash accruals. Going forward firm is expected to generate NCA of Rs. 1.53 Cr and Rs. 1.73 Cr against CPLTD of Rs. 0.92 Cr each year in FY 2023 and 2024 respectively. Firm has investment of Rs. 0.31 Cr in FY 2022 which are in the form of deposits to various suppliers hence lien marked. Cash and bank balance in FY 2022 stood at Rs. 0.21 Cr and limit utilization remains high at 95.86%.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	19.31	17.58
PAT	Rs. Cr.	1.03	0.41
PAT Margin	(%)	5.35	2.33
Total Debt/Tangible Net Worth	Times	2.14	2.93
PBDIT/Interest	Times	6.76	3.33

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

None

Any other information

None.

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Sep 2022	Cash Credit	Long Term	3.50	ACUITE B (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	3.93	ACUITE B (Issuer not co-operating*)
	Term Loan	Long Term	0.17	ACUITE B (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.40	ACUITE A4 (Issuer not co-operating*)
24 Jun 2021	Proposed Bank Facility	Long Term	3.93	ACUITE B (Issuer not co-operating*)
	Term Loan	Long Term	0.17	ACUITE B (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.40	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	3.50	ACUITE B (Issuer not co-operating*)
08 Mar 2019	Proposed Bank Facility	Long Term	3.93	ACUITE B Stable (Assigned)
	Bank Guarantee	Short Term	0.40	ACUITE A4 (Assigned)
	Term Loan	Long Term	0.17	ACUITE B Stable (Assigned)
	Cash Credit	Long Term	3.50	ACUITE B Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.34	ACUITE B+ Stable Upgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.17	ACUITE B+ Stable Upgraded
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.04	ACUITE B+ Stable Upgraded
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.55	ACUITE B+ Stable Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Shreyansh Singh Analyst-Rating Operations Tel: 022-49294065 shreyansh.singh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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