

## Press Release

**Bhanu Agro**

June 23, 2021

## Rating Upgraded



|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs.10.00 Cr.   |
| <b>Long Term Rating</b>             | ACUITE BB/ Outlook: Stable<br>(Upgraded from ACUITE B+/Stable) |

\* Refer Annexure for details

## Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.10.00 crore bank facilities of Bhanu Agro (BA). The outlook is '**Stable**'.

### Rationale for rating upgrade

The rating upgrade is on account of augmentation in the business risk profile marked by significant improvement in the scale of operations and adequate liquidity position. The rating also factors in the stabilization in the operations of the newly set up refining unit and extensive experience of promoters in the edible oil industry. However, the rating is constrained by limited track record of operations, net losses incurred by the firm, susceptibility of margins towards raw material price volatilities and intense competition.

### About the Company

Gujarat based Bhanu Agro was established in December 2017 as a partnership firm promoted by Mr. Kishor Valjibhai Bhanushali, Mr. Vasant Valjibhai Bhanushali and Mr. Valjibhai Chandulal Bhanushali. The firm has been established to carry on the business of refining edible oil from crude palm oil and trading of edible oil.

### Analytical Approach

Acuité has considered the standalone financial and business risk profile of Bhanu Agro to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### • Entrepreneurial experience of promoters

Bhanu Agro is a partnership firm established by Mr. Valjibhai Chandulal Bhanushali and his sons. The day to day operations are managed by Mr. Kishor Bhanushali and Mr. Vasant Bhanushali, who have over two decades of experience in the trading of edible and non-edible oil business. The project is a backward integration to the promoters existing business of oil trading carried on under M/s Odhavram Trading and M/s Tushar Enterprise. Bhanu Agro shares strong operational linkages and common customers and suppliers with other entities controlled by promoters.

Acuité believes that the promoters established track record in the oil trading industry along with strong operational linkages with other entities controlled by promoters will support the business risk profile of the firm.

#### • Augmentation in business risk profile

The revenue from operations of the firm improved significantly with ~507 percent YoY to Rs.80.58 crore in FY21 (Provisional) as against Rs.13.28 crore in FY20. The increase in revenues was majorly on account of full commencement of its operations during FY21 with higher utilization levels and healthy demand from the edible oil industry. The operations of the firm have been stabilized after commenced its operations from Sep, 2019 with a low utilization in the initial period. Further, the operating profit margin of the firm declined and stood at 2.76 percent in FY21 (Provisional) against 8.04 percent in FY20 on account of increase in raw material costs and other expenses. However, the firm has narrowed its losses in FY21 (Provisional) which stood at 0.15 crore against 0.75 crore in FY20.

Acuité believes that the business risk profile of the firm is expected to improve in the medium term on account of stabilization of its operations and healthy demand from edible oil industry.

- **Proximity to raw materials**

The firm purchases crude palm oil from the suppliers at Kandla port, which is the major centre in the country where imported crude palm oil is available. The refinery unit is set up closer to the Kandla port, in Kutch Gandhidham, ensuring quick supply of raw materials at competitive rates.

## **Weaknesses**

- **Moderate financial risk profile**

The firm has a moderate financial risk profile mainly marked by low net worth, moderate gearing and debt protection matrices. The tangible net worth of the firm stood low at Rs.5.13 crore as on 31 March, 2021 (Provisional) as against Rs.5.56 crore same period last year. The gearing of the firm increased to 2.00 times in as on 31 March, 2021 (Provisional) as against 1.67 times same period last year on account of increase in total debt levels of the firm. The total debt as on 31 March, 2021 (Provisional) consist of working capital limits from banks of Rs.2.90 crore and long term borrowings from banks of Rs.7.34 crore. The Interest Coverage Ratio (ICR) marginally improved to 2.53 times in FY21 (Provisional) as against 2.29 times in FY20. Further, the Debt to EBITDA of the firm also improved to 4.60 times for FY21 (Provisional) as against 8.55 times in FY20. Further, the TOL/TNW marginally improved to 2.51 times as on 31 March, 2021 (Provisional) as against 2.65 times same period last year.

Acuite believes that the financial risk profile will remain moderate in the medium term mainly due to moderate profitability and moderate debt structure.

- **Limited track record of operations and susceptible of margins towards volatility in raw material prices**

The promoter's decision to commence oil refining through Bhanu Agro in December 2017 was the first step in the refining business and is a backward integration to their existing trading business of edible and non-edible oils carried out under other entities controlled by promoters. The firm is in the nascent stage of refining business since its commercial operations have just started from September 2019. Bhanu Agro is yet to establish a successful track record in the oil refining segment and is likely to face stiff competition from the existing large and established players in the refining segment.

Further, the key raw material for the firm is raw palm oil which is susceptible to regulatory risk and price fluctuations which will likely impact the operating margins. The demand and supply of raw palm oil which is impacted by global macroeconomic factors have a significant impact on prices and the availability of crude palm oil.

The firm's ability to establish relations with vendors and customers along with its ability to manage fluctuations in the prices of raw materials will be a key rating sensitivity.

## **Rating Sensitivities**

- Improvement in revenues and profitability backed by healthy demand from edible oil industry
- Deterioration in working capital management leading to stretched liquidity

## **Material Covenants**

None

## **Liquidity position: Adequate**

The firm has adequate liquidity position marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.35 crore in FY21 (Provisional) against matured debt obligations of Rs.0.78 crore in the same period. The firm has efficiently managed the working capital operations reflected by GCA days of 26 days for FY21 (Provisional). The utilization of working capital limits remains around 67 per cent in last six months ended April, 21. However, the current ratio stood low at 0.92 times in FY21 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate net cash accruals against its matured debt obligations.

## **Outlook: Stable**

Acuite believes that Bhanu Agro will maintain a Stable credit profile over the medium term on the back of established presence of promoters in oil trading and the synergies with other promoter owned entities. The outlook may be revised to 'Positive' in case the firm is able to demonstrate higher than expected growth in scale of operations in a profitable manner. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and net cash accruals leading to deterioration in the financial risk profile, particularly liquidity.

### About the Rated Entity - Key Financials

|                               | Unit    | FY21 (Provisional) | FY20 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income              | Rs. Cr. | 80.58              | 13.28         |
| PAT                           | Rs. Cr. | (0.15)             | (0.75)        |
| PAT Margin                    | (%)     | (0.18)             | (5.66)        |
| Total Debt/Tangible Net Worth | Times   | 2.00               | 1.67          |
| PBDIT/Interest                | Times   | 2.53               | 2.29          |

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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. Crore.) | Ratings/Outlook             |
|-------------|---------------------------------|-----------|---------------------|-----------------------------|
| 20-Mar-2020 | Term Loan                       | Long term | 7.00                | ACUITE B+/Stable (Assigned) |
|             | Cash Credit                     | Long term | 3.00                | ACUITE B+/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                                     |
|------------------------|------------------|-----------------|----------------|-----------------------------|---|
| Term Loan              | Feb, 2019        | 9.35            | Mar, 2026      | 7.00                        | ACUITE BB / Stable (Upgraded from ACUITE B+/Stable) |
| Cash Credit            | Not Applicable   | Not Applicable  | Not Applicable | 3.00                        | ACUITE BB / Stable (Upgraded from ACUITE B+/Stable) |

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**About Acuite Ratings & Research:**

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