

Press Release

Bhanu Agro
May 04, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.50	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	16.50	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs.16.50 Cr. bank facilities of Bhanu Agro (BA). The outlook is **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation of BA takes into account increase in the firm's scale of operations in FY2022 along with its efficiently managed working capital cycle and extensive experience of the promoters in the edible oil industry. The rating is however constrained by the decline reported in the firm's operating profitability margins, below average financial risk profile, limited track record of operations, susceptibility of margins towards volatility in raw material prices and intense competition. Going forward, ability of the firm to maintain its scale of operations while improving its operating profitability margins along with improving its financial risk profile will remain a key rating sensitivity factor.

About the Company

BA established in 2017, is a Gujarat based partnership firm engaged in 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 BA to arrive at the rating.

Key Rating Drivers

Strengths

Entrepreneurial experience of promoters

BA is a partnership firm established in 2017 by Mr. Valjibhai Chandulal Bhanushali and his sons. The day-to-day operations are managed by Mr. Kishor Bhanushali and Mr. Vasant Bhanushali, who possess over two decades of experience in the trading of edible and non-edible oil business. The firm is a backward integration to the promoters existing business of oil trading carried on under M/s Odhavram Trading and M/s Tushar Enterprise. BA shares strong operational linkages and common customers and suppliers with other entities controlled by the 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.

Increase in revenue albeit moderation in profitability

BA reported an increase in its revenue of Rs.154 Cr in FY2022 as against Rs.80 Cr in FY2021 which is a growth of ~93 percent and has achieved this on account of healthy growth in demand of edible oil and other by products in domestic market which are manufactured and traded by the firm. The firm sold an overall quantity of 16,312 MT in FY2022 as against 12,788 MT in FY2021 which majorly includes products such as RBD Palmolein Oil, Refined Rice Bran Oil and Refined Soyabean Oil.

Despite of increase in the overall revenue, the operating margin of the firm however stood declined at 2.12 percent in FY2022 as against 3.27 percent in FY2021 on account of increase in the cost raw materials, traded goods and other expenses. On the other hand, the net profit margin of the firm stood marginally improved at 0.43 percent in FY2022 as against 0.38 percent in FY2021 on account of marginal decrease in the interest cost and depreciation during the year.

For the current year FY2023 (Estimated), the firm has achieved an increase in its revenue of Rs.226 Cr on account of sustainable growth in demand of edible oil and other by products. However, the margins have further remained subdued on account of increase in the cost of raw materials and traded goods along with an increase in the interest cost during the year on account of increase in the firm's overall debt profile during the year. The operating margin of the firm in FY2023 (Estimated) stood at 2.04 percent and net profit margin stood at 0.33 percent.

Acuité believes that the ability of BA to maintain its scale of operations while improving its operating and profitability margins will remain a key rating sensitivity factor.

Efficient working capital management

The working capital operations of BA are efficient marked by its Gross Current Assets (GCA) of 61 days for FY2022 as against 55 days for FY2021. The inventory cycle of the firm stood high at 44 days in FY2022 as against 22 days in FY2021. The firm generally maintains an average inventory holding of less than two months. Further, the receivable days stood improved at 11 days in FY2022 as against 16 days in FY2021 whereas the creditor days also stood improved at 15 days in FY2022 as against 16 days in FY2021. The average bank limit utilization for 6 months' period ended February 2023 however stood high at ~87 percent.

Acuité believes that ability of BA to maintain its efficient working capital cycle over the medium will remain a key rating sensitivity factor.

Weaknesses

Below average financial risk profile

Financial risk profile of BA is below average marked by low network, high gearing and average debt protection metrics. The tangible network of the firm stood lower albeit improved to Rs.9 Cr as on 31 March, 2022 as against Rs.6 Cr as on 31 March, 2021 due to accretion to reserves and additional capital infusion by the partners. The gearing (debt-equity) stood high at 2.38 times as on 31 March, 2022 as against 2.40 times as on 31 March, 2021 on account of subsequent increase in the long term and short term debt availed by the firm from multiple banks and NBFCs along with an increase in the unsecured loans availed from directors and related parties to meet the working capital requirements. Going forward, the firm does not have any plans of raising long term debt for any significant debt funded capex plans. The gearing of the firm is however expected to remain high on account of its enhanced short-term bank borrowings in FY2023 for working capital purpose vis-a-vis low tangible network. The total debt of Rs.21 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.10 Cr, short term bank borrowings of Rs.5 Cr and unsecured loans from directors and related parties of Rs.6 Cr.

The interest coverage ratio stood improved at 3.80 times for FY2022 as against 3.35 times for FY2021 whereas the DSCR stood lower at 1.66 times for FY2022 as against 2.39 times for FY2021.

The Net Cash Accruals to Total debt stood marginally lower at 0.11 times for FY2022 as against 0.15 times for FY2021. The Total outside liabilities to Tangible stood marginally improved at 3.22 times for FY2022 as against 3.27 times for FY2021. The Debt-EBITDA ratio stood high at 6.49 times for FY2022 as against 4.58 times for FY2021.

Acuité believes that ability of BA to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

Limited track record of operations and susceptibility of margins towards volatility in raw material prices

The promoter's decision to commence oil refining through BA in 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. BA 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 which have a significant impact on prices and the availability of crude palm oil.

Acuité believes that ability of BA to establish a healthy relation with the vendors and customers along with its ability to manage fluctuations in the prices of raw materials will be a key rating sensitivity.

Rating Sensitivities

- Ability to maintain scale of operations while improving operating and profitability margins
- Ability to improve financial risk profile
- Ability to maintain an efficient working capital cycle

Material covenants

None

Liquidity position - Adequate

BA has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The firm generated cash accruals in the range of Rs.1 Cr to Rs.2 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.0.36 Cr to Rs.1.17 Cr during the same period. Going forward, the NCA are expected in the range of Rs.2 Cr to Rs.3 Cr for period FY2023-FY2025 against its repayment obligation of around Rs.1 Cr during the same period. The working capital operations of the firm are efficient marked by its gross current asset (GCA) days of 61 days for FY2022 as against 55 days for FY2021. The average bank limit utilization for 6 months' period ended February 2023 however stood high at ~87 percent. Current ratio stands at 1.83 times as on 31 March 2022. The firm has maintained cash & bank balance of Rs.0.06 Cr in FY2022.

Acuité believes that liquidity of BA is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that BA will maintain 'Stable' outlook over the medium term on account of established presence of its promoters in oil trading and the synergies with other promoter owned entities. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	154.03	79.71
PAT	Rs. Cr.	0.66	0.30
PAT Margin	(%)	0.43	0.38
Total Debt/Tangible Net Worth	Times	2.38	2.40
PBDIT/Interest	Times	3.80	3.35

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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Feb 2022	Term Loan	Long Term	7.00	ACUITE BB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.50	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
23 Jun 2021	Term Loan	Long Term	7.00	ACUITE BB Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	3.00	ACUITE BB Stable (Upgraded from ACUITE B+ Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab and Sind Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.80	ACUITE BB Stable Reaffirmed
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.44	ACUITE BB Stable Reaffirmed
Punjab and Sind Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.96	ACUITE BB Stable Reaffirmed
Punjab and Sind Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.30	ACUITE BB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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