

Press Release

Arihant Food Products

March 03, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.7.19 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs.7.19 Cr. bank facilities of Arihant Food Products (AFP). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account the steady rise in the scale of operations of the firm over the years backed by extensive experience of the promoter in the paddy processing industry. However, the rating is constrained by the working capital intensive nature of operations and moderate financial risk profile of the firm.

About the Company

Maharashtra based Arihant Food Products (AFP) is a proprietorship firm incorporated in 2012 by Mr. Hasmukh Doshi. The firm is currently engaged in paddy processing and has a milling plant with a total capacity of processing 8 tonnes of paddy per hour, which is currently utilized at 50 percent capacity.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

Arihant Food Products (AFP) was incorporated as a proprietorship concern in 2012 by Mr. Hasmukh Doshi. The proprietor of the firm possesses around a decade experience in the aforementioned line of business. The promoters of the firm are ably supported by experienced second line of management in running day to day operations of the firm. The extensive experience of the promoter supported by experience has enabled the firm to forge healthy relationships with reputed customers, namely Avenue Supermarts Limited and its suppliers.

Acuite believes that the firm will continue to benefit from its experienced management and established relationships with its customers in the medium term.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the firm is moderate marked by low tangible net worth, high gearing and debt protection metrics. The net worth of the firm stood at Rs.3.00 crore in FY20 as against Rs.2.60 crore in FY19. The gearing of the firm increased and remained high at 2.63 times as on 31 March, 2020 as against 2.12 times as on 31 March, 2019 on account of increase in debt levels. The total debt of the firm consists of working capital borrowings of Rs.6.01 crore, term loan from banks of Rs.0.48 crore and unsecured loans from promoters of Rs.1.40 crore as on 31 March, 2020. The Interest Coverage Ratio (ICR) of the firm deteriorated to 1.61 times in FY20 as against 1.89 times in FY19. The debt to EBITDA also increased to 5.99 times in FY20 as against 5.64 times in FY19. The total outside liabilities by tangible net worth (TOL/TNW) marginally deteriorated to 4.85 times as on 31 March, 20 as against 4.41 times same period last year.

Acuite believes that the financial risk profile of the firm will continue to remain moderate over the medium term in the absence of any major future debt-funded capex.

• Working capital intensive operations

The operations of the firm are working capital intensive in nature marked by increased and high gross current assets (GCA) to 171 days in FY20 as against 132 days in FY19. The inventory days of the firm increase to 153 days in FY20 as against 111 days same period last year and the debtor days declined to 15 days in FY20 as against 21 days in FY19. Further, the creditor days was increased to 89 days in FY20 as against 71 days in FY19. The working capital requirements are funded through bank lines which have been utilized on an average of 97.25 percent in last eight months ended November 2020. The current ratio of the firm stood at 1.11 times as on 31 March, 2020 as against 1.12 times same period last year.

Acuite believes that the ability of the firm to efficiently manage its working capital requirements will remain a key rating sensitivity.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

None

Liquidity position: Stretched

The firm has stretched liquidity position marked by high gross current asset (GCA) days of 171 days in FY20. The working capital requirement is funded through bank lines that have been highly utilized at an average of around 97 percent in last eight months ended November 2020. Further, the firm had reported net cash accruals of Rs.0.50 crore as against matured debt obligation of Rs.0.07 crores in FY20. The firm maintains unencumbered cash and bank balances of Rs.0.59 crore as on March 31, 2020. The current ratio stands moderate at 1.11 times as on March 31, 2020. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account working capital intensive nature of operations.

Outlook: Stable

Acuite believes that the firm will maintain 'Stable' outlook in the medium term on account of the extensive experience of the promoters in the paddy processing industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected generation of cash accruals or stretch in its working capital cycle leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	29.91	29.60
PAT	Rs. Cr.	0.29	0.24
PAT Margin	(%)	0.96	0.81
Total Debt/Tangible Net Worth	Times	2.63	2.12
PBDIT/Interest	Times	1.61	1.89

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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+/Stable (Assigned)
WCTL	June, 2020	8.10	May, 2024	1.19	ACUITE B+/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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