

Press Release

Arihant Food Products

August 16, 2021

Rating Downgraded



Total Bank Facilities Rated*	Rs.7.19 crore#
Long Term Rating	ACUITE D (Downgraded from ACUITE B+ Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE D (read as ACUITE D)**' from '**ACUITE B+ (read as ACUITE B plus)**' on the Rs.7.19 crore bank facilities of Arihant Food Products.

The rating downgrade is on account of delays in servicing of debt obligations.

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 have 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

Acuité has considered the standalone business and financial risk profiles of Arihant Food Products to arrive at this rating.

Key Rating Driver

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.

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

Weaknesses

- **Delays in debt servicing**

There are persistent delays in the account and is classified as NPA. This is mainly due the stretched liquidity and impact of lockdown due to Covid.

- **Average financial risk profile**

The financial risk profile of the firm is average 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 increase 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.

Acuité believes that the financial risk profile of the firm will continue to remain average 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 Sensitivity

- Timely repayment of the debt obligations

Material Covenants

None

Liquidity Position: Poor

The company has poor liquidity marked by the ongoing delays in the account. Due to the ongoing pandemic situation the liquidity of the company has impacted severely. Acuite believes the liquidity position of the company will continue to remain poor over the medium.

Outlook: Not Applicable

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

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-March-2020	Cash Credit	Long Term	6.00	ACUITE B+/Stable (Assigned)
	Working Capital term Loan	Long Term	1.19	ACUITE B+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lenders Names	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE D (Downgraded from ACUITE B+/ Stable)
IDBI Bank	Working Capital Term Loan	June, 2020	8.10	May, 2024	1.19	ACUITE D (Downgraded from ACUITE B+/ Stable)

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About Acuité Ratings & Research:

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