

Press Release

Aelea Commodities Private Limited

March 25, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (**read as ACUITE Triple B minus**) and short-term rating of '**Acuite A3**' (**read as ACUITE A three**) on the Rs.50.00 Cr bank facilities of Aelea Commodities Private Limited (ACPL). The outlook is '**Stable**'.

The rating takes into account the extensive experience of promoters and their established relations with customers and suppliers. The rating also draws strength from the efficient working capital management and moderate financial risk profile. These strengths are partially offset by limited operational track record of the company and higher customer concentration. Going forward ACPL's ability to maintain its working capital management efficiency and scale of operations without any deterioration in its profitability will be key monitorable.

About the Company

Incorporated in November, 2018 ACPL is a Mumbai based company mainly engaged in wholesale trading of sugar, pulses, beans, bagasse and raw cashew nuts. The Company also processes raw cashew nuts into cashew kernels. ACPL is promoted by Mr. Ashok Purshottam Patel, Mr. Firoz Gulamhusein Hathiya, Mr. Hozefa Shabbir Jawadwala and Mr. Satyanarayan Patro. ACPL derives majority of its revenue from trading of sugar and pulses. ACPL procures its sugar and pulses requirement domestically and imports beans mainly soya-bean, coffee beans and raw cashew nuts from overseas markets of Africa and Dubai. From October, 2020 onwards ACPL ventured into cashew processing. It gets raw cashew nuts processed into cashew kernels on job work basis. The Company is also setting up its own cashew processing plant at Mangrol, Surat. As on 31st January, 2021, 50% of the total project cost is already incurred and the project is planned to be completed by the end of Q1FY22.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of ACPL for arriving at this rating.

Key Rating Drivers

Strengths

• **Extensive experience of the promoters and established relations with customers and suppliers**

ACPL is promoted by Mr. Ashok Purshottam Patel, Mr. Firoz Gulamhusein Hathiya, Mr. Hozefa Shabbir Jawadwala and Mr. Satyanarayan Patro. All four promoters are involved in day to day operations of the business. The promoters have more than two decades of industry experience. Mr. Satyanarayan Patro and Mr. Hozefa Shabbir Jawadwala have around 18 years of experience in the agro-commodity trading industry. Mr. Patro manages the sugar trading business of ACPL. Mr. Jawadwala was previously associated with Tata International Limited (TIL) and manages the overseas procurement segment of ACPL. This has helped the promoters develop good relations with their customer and supplier base which is reflected in the increasing scale of operations of the entity. It has reported revenue of Rs. 496.11 Cr in FY2020 and Rs. 90.14 Cr in FY2019. Further, the revenue from operations stood at Rs.340.66 Cr in 10M FY2021.

Acuité believes that ACPL will continue to benefit from the extensive experience of its promoters and their relationship with their customer and supplier base.

- **Modest financial risk profile**

ACPL's financial risk profile is modest marked by modest debt protection metrics and moderate net-worth.

ACPL's net-worth stood at Rs.8.59 Cr as on March 31, 2020 against Rs.1.68 Cr as on March 31, 2019. The improvement was on account of accretion of profits to reserves. The overall gearing reduced to 0.00 times as on March 31, 2020 from 5.40 times as on March 31, 2019 this is primarily on account of reclassification of bills discounted as other current liabilities. The financial risk profile is better reflected in the Total Outside Liabilities/Tangible Net-worth ratio which improved to 6.21 times as on March 31, 2020 from 12.03 times as on March 31, 2019. The same is expected to fall in the range of 2.4 times – 3.8 times in the medium term on back of accretion of reserves. ACPL has a limited operational track record of just over two years. As the ACPL grows overtime its financial risk profile is expected to improve on account of its improved scale of operations and profitability. The Interest coverage ratio stood high at 2.86 times for FY2020 and 14.24 times for FY2019. The Company was operational for a period of 4 months in FY2019.

Acuité expects ACPL's financial risk profile to improve over the medium term on account of improvement in operating performance.

- **Efficient working capital management**

ACPL's working capital is efficiently managed as reflected in its gross current asset days of around 44 days in FY2020 and 79 days in the previous year. GCA days are primarily driven by inventory as well as receivable. Inventory days stood at 12 days in FY2020 against 1 day in FY2019. The Debtor days stood at 14 days in FY2020 against 38 days in FY2019. ACPL receives immediate payment against majority of sales through LC discounting, as reflected in its low receivable days. This reduces the ACPL's dependency on working capital borrowings. The average bank limit utilization of its fund based facility for the four months ended January, 2021 was 72 percent.

Acuité believes ACPL's ability to manage its working capital efficiently will remain a key rating sensitivity.

Weaknesses

- **Limited operational track record and high customer concentration risk**

ACPL has an operational track record of just over two years. The Company also faces high customer concentration risk, as more than 80 percent of its total sales are made to TIL since its incorporation in November, 2018. The high customer concentration limits ACPL's pricing power putting pressure on its profitability. However, its relations with TIL has also helped the company achieve significant improvement in its scale of operations. Its revenue stood at Rs. 496.11 Cr in FY2020 against Rs. 90.41 Cr in FY2019. In 10MFY21 the gross sales of the Company stood at Rs.340.66 Cr.

Acuité believes TIL will continue to be a significant contributor to the revenue of ACPL, however, its ability to diversify its customer base will remain a key monitorable

- **Presence in a competitive industry with low entry barriers**

The wholesale trading industry of agro-commodities is a fragmented industry with low entry barriers. The industry is characterized by a large number of organized and unorganized players which leads to intense competition. Moreover, due to low value additive nature of trading business, the profitability margins are thin.

Liquidity Position: Adequate

ACPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The Company generated net cash accruals of Rs.6.93Cr and Rs.1.63Cr in FY2020 and FY2019, respectively while it had no significant debt obligation to pay during the same period. The cash accruals of the Company are expected to remain in the range of Rs.5-11 Cr over the medium term, while its repayments are estimated to be in the range of Rs.0.36-1.50Cr for the same period. The Gross Current Asset (GCA) days were around 44 days estimated as on March 31, 2020 and the unencumbered cash and bank balance was Rs. 20.58 Cr as on March 31, 2020. The average bank limit utilization of its fund based facility for the four months ended January, 2021 was 72 percent. The current ratio was 1.13 times as on March 31, 2020. Acuité believes that the liquidity of the Company is likely to remain adequate over the medium term on account of healthy cash accruals against debt repayments and efficient working capital management.

Material Covenants

None

Rating Sensitivities

- Ability of the company to maintain its working capital management efficiency
- Ability of the Company to diversify its existing customer bases while maintaining profitability

Rating Outlook: Stable

Acuité believes that ACPL will maintain a stable outlook over medium term on account of extensive experience of its promoters, moderate financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case the company achieves higher than expected improvement in its scale of operations and profitability while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case of substantial reduction in its scale of operations, sharp decline in its operating margins and deterioration in working capital management adversely affecting its liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	496.11	90.41
PAT	Rs. Cr.	6.91	1.63
PAT Margin	(%)	1.39	1.80
Total Debt/Tangible Net Worth	Times	0.00	5.40
PBDIT/Interest	Times	2.86	14.24

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB- /Stable (Assigned)
Proposed Short Term loan	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research:

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