

Press Release

Aelea Commodities Private Limited

July 18, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.00	ACUITE BB Stable Downgraded	-
Bank Loan Ratings	39.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**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**'.

Rationale for the rating

The rating downgrade is on account of deterioration in the operating performance of the Company marked by significant decline in scale of operations and elongated working capital cycle. The revenue stood at Rs. 66.52 Cr. in FY22(Prov.) as against Rs. 392.23 Cr. in FY21. The gross current days of the company stood at 144 days as on March 31, 2022 (Prov.) as against gross current asset days of 30 days as on March 31, 2021. The overall gearing of the Company rose to 1.36 times as on March 31, 2022 (Prov.) as against 0.72 times as on March 31, 2021. The rise in gearing levels is mainly on account of increased long term borrowings for the purpose of capex.

About the Company

Incorporated in November, 2018 ACPL is a Mumbai based company mainly engaged in wholesale trading of sugar, pulses, beans and raw cashew nuts. The Company also processes raw cashew nuts into cashew kernels. It has built its own cashew processing plant at Surat with a capacity of 40MTPD at a total cost of Rs. 33.21 Cr. The commercial production at the plant commenced from June, 2022 onwards. ACPL is promoted by Mr. Ashok Purshottam Patel, Mr. Firoz Gulamhusein Hathiyari, Mr. Hozefa Shabbir Jawadwala and Mr. Satyanarayan Patro.

Analytical Approach

Acuite 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**

ACPL is promoted by Mr. Ashok Purshottam Patel, Mr. Firoz Gulamhusein Hathiari, 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 manages the overseas procurement segment of ACPL. This has helped the promoters develop good relations with their customer and supplier base.

Acuité believes that ACPL will continue to benefit from the extensive experience of its promoters.

- **Modest financial risk profile**

Alea' Commodities Pvt Ltd has a modest financial risk profile marked by moderate networth, moderate gearing and modest debt protection metrics. The networth increased to Rs. 15.56 Cr. in FY22(Prov.) as against Rs. 15.19 Cr. in FY21. The company's total debt stood at Rs. 21.31 Cr. as on March 31, 2022(Prov.) as against Rs. 10.96 Cr. as on March 31, 2021. The total debt of Rs. 21.31 Cr. includes long term bank loan of Rs. 8 Cr. and short term borrowings of Rs. 13.31 Cr. The company's overall gearing increased to 1.36 times as on March 31, 2022(Prov.) as against 0.72 times as on March 31, 2021. The TOL/TNW stood at 2.46 times as on March 31, 2022(Prov.) as against 1.95 times as on March 31, 2021. The ICR declined to 1.88 times in FY22(Prov.) as against 2.51 times in FY21. The DSCR decreased to 1.75 times in FY22(Prov.) as against 2.14 times in FY21. The NCA/TD declined significantly to 0.04 times in FY22(Prov.) as against 0.64 times in FY21.

Acuité expects ACPL's financial risk profile to improve over the medium term on account of completion of capex and commencement of commercial operations at the new plant.

Weaknesses

- **Significant deterioration in scale of operations**

ACPL's operating income deteriorated significantly to Rs. 66.52 Cr. in FY22(Prov.) as against Rs. 392.23 Cr. in FY21, a decline of ~83 percent year on year. The operating income declined due to decline in trading of sugar. Till FY2021, the company generated more than 80 percent of its sales from Tata International Limited, which stood at ~15 percent in FY2022.

The company over the medium term plans to increase its contribution of sales from its manufacturing segment vis-à-vis the trading segment. ACPL during the year, set up its own cashew processing plant at Surat with a total processing capacity of 40MTPD at a total cost of Rs. 33.21 Cr, which was funded by debt of Rs. 18 Cr and balance by promoter contribution and internal accruals. The commercial production at the plant commenced from June, 2022 onwards. The Company expects to scale up its operations at the plant over the medium term.

Acuité believes the ability of ACPL to scale up operations would be a key rating sensitivity.

- **Elongation of Working Capital Cycle**

The company's working capital cycle elongated significantly during the year. The Gross Current Asset (GCA) days increased to 144 days as on March 31, 2022(Prov.) as against 30 days as on March 31, 2021. The GCA days are driven by debtor days and inventory days. The

debtor days increased to 64 days as on March 31, 2022(Prov.) as against 3 days as on March 31, 2021 .. The surge in debtor days is primarily on account of decline in trading of sugar. The inventory days increased to 34 days as on March 31, 2022(Prov.) as against 13 days as on March 31, 2021. The creditor days increased to 40 days as on March 31, 2022(Prov.) as against 2 days as on March 31, 2021. The average bank limit utilisation stood at ~95% percent for the six months period ended May, 2022.

- **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.

Rating Sensitivities

- Improvement in scale of operations and profitability while maintaining the capital structure.
- Company's ability to reduce elongation in working capital cycle will be key a monitorable.

Material covenants

None

Liquidity Position: Stretched

The company generated NCA of Rs. 0.85 Cr. in FY22(Prov.) vis-à-vis negligible maturing debt obligations during the period. Going forward, the net cash accruals are expected to remain in the range of Rs. 4-5.3 Cr. in FY23-24 as against maturing debt obligations of Rs. 1.2-1.5 Cr. The company has working capital intensive nature of operations marked by GCA days of 144 days as on March 31, 2022(Prov.) The current ratio of the company stood at 0.87 times as on March 31, 2022(Prov.). The fund based working capital facility remain highly utilised at approx. 95% percent for the six months period ended May, 2022. The unencumbered cash and bank balance stood at Rs. 0.01 Cr. as on March 31, 2022(Prov.) Acuité expects ACPL's liquidity profile to remain stretched on account of modest cash accruals against repayment obligations and elongated working capital cycle.

Outlook: Stable

Acuité believes that ACPL will maintain a stable outlook over medium term on account of extensive experience of its promoters and modest financial risk profile . 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	66.52	392.23
PAT	Rs. Cr.	0.43	6.65
PAT Margin	(%)	0.64	1.69
Total Debt/Tangible Net Worth	Times	1.36	0.72
PBDIT/Interest	Times	1.88	2.51

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Mar 2021	Cash Credit	Long Term	11.00	ACUITE BBB- Stable (Assigned)
	Proposed Short Term Loan	Short Term	39.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB Stable Downgraded (from ACUITE BBB-)
Not Applicable	Not Applicable	Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A4+ Downgraded (from ACUITE A3)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Simran Kesharwani Analyst-Rating Operations Tel: 022-49294065 simran.kesharwani@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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