

RATING RATIONALE

27 Oct 2020

A.V. Overseas

Brickwork Ratings reaffirms the long term rating and the short term rating for the Bank Loan Facilities of ₹. 10.17 Crores of A.V. Overseas ('AVO' or 'the firm').

Particulars:

Facility [^]	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Aug' 2019)	Present
Fund Based Cash Credit Term Loans	3.00 4.25	6.00 4.17#	Long Term	BWR BB- (Stable) [Assigned]	BWR BB- (Stable) [Reaffirmed]
Fund Based Packing Credit [sub-limit of CC]	3.00	(2.50)	Short Term	BWR A4 [Assigned]	BWR A4 [Reaffirmed]
Total	10.25	10.17	INR Ten crores and seventeen lakhs only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

[^]Details of Bank facilities is provided in Annexure-I

#Outstanding balance as on 31.08.2020

Note- The firm is also availing working capital demand loan facility against Warehousing receipts from SBI Bank amounting to Rs. 5.00 cr , which is not being rated by us.

RATING ACTION / OUTLOOK : Stable

BWR has reaffirmed the long term rating at "BWR BB-" with "Stable" outlook and the short term rating at BWR A4 for the bank loan facilities of A.V. Overseas ('AVO' or 'the firm').

The rating draws strength from the vast business experience of the partners, moderate financial risk profile, the proximity of the mill to a major rice-growing area which results in easy availability of paddy and also the stable demand outlook for rice, given that India is a major consumer and exporter of rice. However, the rating is constrained on account of the scale of operations, intense competition, less value additive nature of the product ,constitution of the firm and agro-climatic risks.

The rating outlook has been assigned as "Stable" as BWR believes that A.V. Overseas business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case there is improvement in revenues and profitability. The rating outlook may be revised to 'Negative' if there is any deterioration in financial risk profile or any liquidity issues.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced Partners :** The firm was promoted by Ashwani Kumar Gupta and Vikas Gupta in Dec 2017. Though the firm was incorporated in 2017 but the management has wide experience in the rice industry which will be helpful for the company in handling operations in the near future and also establishing healthy relations with their customers and suppliers. Mr Avinash Kumar Gupta has an industry experience of around two decades by virtue of his being partner in M/s Shiv Shakti Rice Industries (established in 2001) while Mr Vikas Gupta has a decade long experience through his previous association as partner with M/s Triveni Agrotech (established in 2011). Currently, both the partners are also partners in M/s AV Exports (established in 2016 and engaged in trading and export of rice).
- **Location advantages :** AVO is engaged in the processing of paddy and milling of rice. Paddy is procured from local commission agents and wholesalers. The firm's processing facility is situated at Moga, Punjab which is one of the largest producers of paddy in India. Hence, the firm benefits in terms of easy access to quality raw material because of its proximity to raw material suppliers and is also in a position to cut on the freight component.
- **Moderate Financial Risk Profile :** The firm has no operations in FY 18 and has commenced operations from Nov 2018. Operating income booked at Rs. 21.01 cr in 5MFY19 and Rs. 46.26 cr in FY20. TNW (Analyzed) is at Rs. 6.11 cr as on 31.03.2020 taking unsecured loans as quasi equity. Accordingly, Debt/equity (Analyzed) is at 2.92x as on 31.03.2020 [against TD/TNW of 12.63x]. Operating Profit Margin and Net Profit margin stood at 5.77% and 1.01% in FY20. ISCR is average at 1.93x . Current ratio stood at 1.59x as on 31.03.2020.

Credit Challenges:

- **Nascent stage of operations :** The firm commenced its operations from Nov 2018. Due to the firm being at nascent stage of operations, the firm has small scale of operations and very short track record of operations
- **Exposure to agro-climatic risks and inventory price risks :** Given its operations in an

agro-based industry which is characterized by its seasonality, the company is indirectly exposed to agro-climatic risks such as abnormal weather conditions impacting produce, unpredictable demand supply conditions and raw material price fluctuations. Further, any sudden spurt in raw material prices may not be passed on to customers completely owing to the company's presence in a highly competitive industry.

- **Intense competition** : The rice industry is highly fragmented and is marked by the presence of established market players and a large number of unorganised players in the market limiting the pricing flexibility of the industry participants. Further, paddy prices are regulated by the government to safeguard the interest of farmers which in turn limits the bargaining power of the rice millers and rice processors.
- **Risks associated with partnership concern** : Given the partnership nature of the AVO's constitution, there is an inherent risk of possibility of withdrawal of partner's capital for any personal contingency that could adversely impact the capital structure of the firm.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of AVO. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the firm to improve its financial risk profile and maintaining adequate liquidity will remain the key rating sensitivities.

Positive: The rating may be upgraded if the company inter alia, is able to improve its tangible net worth, improve its gearing, improve debt service coverage ratios or on account of any other favourable factor.

Negative: The rating may be downgraded if inter alia, there is any deterioration in financial risk profile, fails to maintain adequate liquidity or on account of any unforeseen unfavourable events.

LIQUIDITY POSITION : *Adequate*

The company has cash & cash equivalent balance of Rs. 0.11 crs as on 31.03.2020. Current ratio is moderate at 1.59x as on 31.03.2020 and Conversion cycle stood elongated at 118 days in FY20. Long term borrowings of Rs. 11.90 cr as on 31.03.2020 includes unsecured loans from partners, relatives and friends of Rs. 7.57 cr taken as quasi equity as stipulated by the banker and term loans outstanding balance of Rs. 4.33 cr as on 31.03.2020. ISCR stood at 1.93x in FY20. Overall liquidity of the firm remains adequate with average cash credit limit utilization of around 80.61% for the six months period ending Sep' 2020.

ANY GROUP CONCERNS

The firm has one other group concern namely, AV Exports . However, there are no operational linkages between them.

COMPANY PROFILE

Established in December 2017, A V Overseas (AVO) is a partnership firm engaged in the rice milling and processing business. Its milling unit has been set up in Moga , Punjab for processing of paddy and has installed milling capacity of 15 tonnes paddy per hour. The firm is managed and controlled by the partners- Mr. Avinash Kumar Gupta and Mr. Vikas Gupta having profit sharing of 50% each. The commercial operations of the firm commenced in Nov 2018. The firm procures paddy from local commission agents and wholesalers. Approximately, 5% of rice has been exported in FY 20. AVO plans to sell rice majorly to various wholesalers domestically and increase its export gradually.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 2020	FY 2019*
Result Type		Audited	Audited
Operating Income	₹ Cr	46.26	21.01
EBITDA	₹ Cr	2.67	1.74
PAT	₹ Cr	0.47	0.21
Tangible Net worth	₹ Cr	1.76	1.41
Total Debt/TNW	Times	12.63	11.42
Current Ratio	Times	1.59	1.41

*The firm commenced operations in Nov' 18.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Available

RATING HISTORY FOR THE PAST THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	02 Aug' 2019	2018	2017
Fund Based Cash Credit Term Loans	Long Term	6.00 4.17	BWR BB- (Stable) [Reaffirmed]	BWR BB- (Stable) [Assigned]	NA	NA
Fund Based Packing Credit [sub-limit of CC]	Short Term	(2.50)	BWR A4 [Reaffirmed]	BWR A4 [Assigned]	NA	NA
Total		10.17	INR Ten crores and seventeen lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

Analytical Contacts	Investor and Media Relations
Rashi Arora Primary Analyst B :+91 172 5032 295 / 6 Ext :104 rashi.a@brickworkratings.com V K Kukreja Associate Director - Ratings B :+91 11 2341 2232 kukreja.vk@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

[A.V. Overseas]

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab & Sind Bank	Fund Based Cash Credit Term Loans Packing Credit [sub-limit of CC]	6.00 4.17 -	- - (2.50)	6.00 4.17 (2.50)
TOTAL					10.17

Total Rupees Ten crores and seventeen lakhs Only

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