



Rating Rationale

A.P. Refinery Pvt. Ltd.

27 Mar 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 100 Crores of A.P Refinery Pvt. Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund Based			
Cash Credit	91.70	Long	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable
Term Loans	8.30	Term	
Total	100.00	Rs. One Hundred Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Assigned long term rating BWR BBB+ (Outlook: Stable)

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the A.P Refinery Pvt. Ltd. (APRPL or “the company”) up to FY18, projections for FY19, FY20 & FY21, publicly available information and information / clarifications provided by the company.

The Rating derives comfort from long standing experience of the promoters in the edible oil & rice bran oil industry for more than a decade, integrated nature of operations of the company and established relationships with its customers which are industry majors in the edible oil market. The rating is further strengthened by the locational advantages of operating in close proximity to the rice manufacturing companies, leading to easy availability of raw material and low transportation costs.

The rating is, however, constrained by the working capital intensive business, high competition in edible oil industry marked by presence of over a hundred of such companies in Haryana & Punjab and nondeterministic and price sensitive nature of the commodities manufactured by APRPL.

Going forward, the ability of the company to stabilise the inventory levels, efficient working capital management and restore the profitability in FY19 while also improving its solvency profile shall remain the key rating sensitivities.

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Key Rating Drivers:

Strengths:

- **Experienced management:** APRPL is led by Mr. Ravi Goyal who has been in the edible oil and rice bran oil (RBO) business for more than a decade. The other directors of the company, Mr Arun Goyal, Mr. Bhuwan Goyal and Mr. Shiv Kumar Goyal come from the same family and have cumulative experience of over 70 years in commodity related businesses. The directors have infused unsecured loans of ~ Rs 11 Crs (FY18) in the company, indicating their resourcefulness.
- **Integrated Nature of Operations:** APRPL has an extraction plant with a capacity of 400 TPD which extracts crude rice bran oil from rice bran and refining capacity of 300-325 TPD which refines the crude oil into edible oil. The company refines not only the self-extracted crude rice bran oil but also the crude oil procured from its associate plants and institutional customers. Further, the company is also involved in trading and refining of other types of edible oils such as cotton seed oil, sunflower oil, etc. The revenue mix from manufacturing of refined oils and that of crude rice bran and byproducts (De-Oiled Cakes) was in 65:35 ratio in FY18.
- **Established Business Relationships with large companies:** APRPL has established relationships with reputed customers such as Adani Wilmar, Marico, Modi Natural Ltd., Godrej Agrovet, and Patanjali Ayurved Ltd.amongst others. These companies purchase either packaged or loose rice bran oil from APRPL. However, over 60% of the revenues from top 5 customers come from Adani Wilmar Ltd. indicating customer concentration risk to an extent. Revenues from top 5 customers constitute ~ 50% of the total revenues of the company.
- **Improvement in Revenues & Profitability in FY19:** Currently, the company has recovered from a dip in revenues in FY18, booking a revenue of Rs 424.53 Crs for 10MFY19 (provisional data) as compared to Rs 384.83 Crs in FY18. Profit before tax (PBT) has also increased to Rs 6.18 Crs for 10MFY19 (provisional) as compared to Rs 4.82 Crs in FY18. The company is projecting revenues of Rs 464.34 Crs and PBT of Rs 7.89 Crs in FY19.

Weaknesses:

- **Moderate financial performance in FY18:** The company's operating income declined by ~10% in FY18, reducing from Rs 428.51 Crs (FY17) to Rs 384.23 Crs (FY18) because of sluggish sales in 1st Qtr. of FY18 post implementation of GST. Further, the inventory remained high at Rs 110 Crs in FY18 (Rs 61 Crs in FY17) on account of management's decision to stock the inventory (majorly de-oiled cakes and crude rice bran oil) rather than selling the products at a lower price prevalent at that time. Its profitability declined to Rs 3.18 Crs (FY18) as compared to Rs 6.27 Crs (FY17) because of reduced operating profits, increased interest costs and higher depreciation. The lower profits have translated into lower DSCR (1.54x) and ISCR (2.08x) in FY18. The company's total debt to tangible net worth ratio stood at 3.23x in FY18 as compared to 2.60x in FY17.
- **Working capital intensive nature of operations:** The operations of the company are working capital intensive marked by high utilisation(over 90%) of the limits in the peak season. However, the limits are



utilised at a level less than 60% in lean season, as the banks have capped the available funds in lien months (July-Nov), as per their assessment of working capital. The cash conversion cycle in FY18 increased to 113 days from 80 days in FY17, mainly because of the increase in inventory holding period. As per provisional data for 10MFY19, the company holds inventory of Rs 90.08 Crs which seems moderately reduced as compared to FY18 levels.

Analytical Approach

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

Support from Group Companies:

The rating of APRPL is arrived at on a standalone basis after independent evaluation of its financial risk profile.

Rating Outlook: Stable

BWR believes that APRPL's 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 the company is able to improve its profitability margins while also achieving the projected revenue figures. The rating outlook may be revised to 'Negative' if the projections are not met and there is any adverse movement in the risk profile of the company.

About the Company:

Ludhiana (Punjab) based, A. P. Refinery Private Limited was incorporated in 2004 by Mr Ravi Goyal (Managing Director). APRPL extracts and refines rice bran oil. It also processes cotton seed oil, soya bean oil and sunflower oil and produces de-oiled cakes (DOC) as by-products of refining. The company started its commercial operations in early 2007 and since then it is managed by the Goyal family. APRPL has a solvent extraction capacity of 400 tonnes per day (TPD), refinery capacity of 300 TPD, and a modern oil mill of 80 TPD, in Jagraon near Ludhiana (Punjab). From rice bran, the company extracts around 15% of crude oil in extraction plant, out of which about 70%-75% of edible oil is refined in the refinery unit.

Financial Performance:

APRPL booked total operating income of Rs 384.83 Crores in FY18 as against Rs 428.51 Crores in FY17. PAT stood at Rs 3.18 Crores in FY18 as compared to Rs 6.27 Crores in FY17.

Parameters	Units	FY 2018(A)	FY 2017(A)
Total Operating Income	Rs in Cr	384.83	428.51
OPBDIT	Rs in Cr	17.03	18.56
PAT	Rs in Cr	3.18	6.27



Tangible Net Worth	Rs in Cr	42.79	39.60
Total Debt/TNW	Times	3.23	2.60
Current Ratio	Times	1.19	1.14

Rating History for the last three years:

Facility	Current Rating (2019)			Rating History		
	Amount (Rs. in Cr)	Tenure	Rating	2018	2017	2016
Fund Based Cash Credit Term Loans	91.70 8.30	Long Term	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable	NA	NA	NA
Total	100.00	Rs. One Hundred Crores Only				

Status of non-cooperation with previous CRA: NA

Any Other Information: None

Hyperlink/Reference to Applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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