

## Rating Rationale

### Brickwork Ratings assigns 'BWR B-' for the Bank Loan Facilities aggregating ₹ 12.50 Cr of Aakash Agrotech Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the following **Rating<sup>1</sup>** for the Bank Loan Facilities of Aakash Agrotech Pvt. Ltd. (AAPL or the Company).

Facility	Limits (₹ Cr)	Tenure	Rating
<b>Fund Based (FB)</b>			
Cash Credit Term Loan	<b>2.50</b> <b>10.00</b>	Long Term	<b>BWR B-</b> (BWR B minus)  <b>(Outlook: Stable)</b>
<b>Total Limits</b>	<b>12.50 (INR Twelve Crores and Fifty Lakhs only)</b>		

BWR has principally relied upon the audited financial results up to FY13 and financial projections, publicly available information and information/clarification provided by the Company's management.

The rating inter alia factors the experience of promoters with long presence in the industry, presence in rice growing area resulting in easy availability of paddy and satisfactory operating margins.

The rating is however constrained by weak financial profile coupled with debt funded expansion resulting in very high gearing, high working capital intensity, modest scale of operations limiting economies of scale, intensely competitive nature of the industry characterized by a number of small players and susceptibility to agro climatic risks, which can affect the availability of the paddy in adverse weather conditions.

### Company Profile

Established in the year 2012, Aakash Agrotech Private Limited (AAPL) is a private limited Company incorporated in Haryana, having its manufacturing facilities in Karnal in the state of Haryana. The land for the same is spread across 9 acres taken on lease from the directors of the Company for 25 years. The Company is primarily engaged in the manufacturing, processing and trading of rice produced from paddy. AAPL produces boiled rice and is mainly focused on domestic sales of rice. The rice mill has an installed milling capacity of 12 MT/year. The Company also derives income from sales of by products like rice bran and foke, however the sale of rice alone contributed to around 95% of the total revenues in FY 13.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

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As the mill is located in a major paddy growing region, most of the paddy requirement is met locally from the farmers through agents. AAPL procures paddy from mandis of Haryana, UP etc. The procurement season is generally from October to March however, there is arrangement to procure the paddy from agents who store the paddy round the year.

The firm's major raw material is paddy which is processed to sell basmati / non – basmati varieties of rice in the market. As the mill is located near the paddy growing area, most of the paddy requirement is met locally from the farmers through agents. These agents charge 1% of the purchase price as their commission. The transportation cost of the raw materials is borne by the Company. The Company mainly deals in parboiled rice of different varieties depending upon the season as well as the demand of the customers. When The Company purchases the paddy from the agent the moisture content is around 14% - 15% in the rice. Normally since the firm procures from local farmers/agents, transportation time for raw material ranges from 1 day to 3 days. The Company has warehouses which are located on its manufacturing compound itself. As per the regulatory requirement, the Company has to sell to FCI (Food Corporation of India) if the Company purchases Parimal variety of paddy. Since the Company does not purchase Parimal variety of paddy, it sells its entire produce in open market (mainly to wholesaler). The price ranges from Rs 60 – Rs. 90 per kg. While the average collection days ranges between 30-45 days for open market wholesalers, average credit period given by suppliers to the Company ranges from 7 -15 days. Moreover, the paddy is procured from the farmers, generally, against immediate payments while the millers have to extend credit to whole-sellers who sell rice to retailers. The total workforce of the Company is around 100 permanent employees. The plant works in 2 shifts of 10 – 11 hours. The Company does not have a separate marketing team. They approach the agents/dealers who bring in the sales order as per the requirement in the market and thus the firm caters the same.

### **Financial Performance**

The Company's operations started in November, 2012, thus financials of only FY13 are available. The operating income recorded for FY13 is Rs.27.09 Cr. Operating profit of the Company is recorded at Rs.2.45 Cr in FY13 and operating margin is recorded at 9.05%. The net profit of the Company reported is Rs.0.28 Cr in FY 13. The Net Profit margin is recorded at 1.04%. Company has achieved sales of around Rs.27 Cr up to November 13. However, it expects to achieve the projected sales of Rs.82.15 Cr, as the demand for rice picks up from October to March. Total debt of the Company is Rs14.14 Cr in FY 13, which includes term loan of around Rs.7.60 Cr, working capital loan of around Rs.2.50 Cr and unsecured loan of around Rs.3.30 Cr. Gearing of the firm is high at 12.66 times in FY 13. However, coverage ratios are at a satisfactory level, with interest coverage ratio at 3.21 times and DSCR at 1.68 times in FY13. The Current Ratio of the Company is at 1.04 times in FY13.

## Outlook

AAPL has experienced promoters with satisfactory operating margin. However, the Company has limited scale of operations further affected by the cyclical and fragmented nature of the industry. Consistent revenue growth with better margins and improvement in capital structure are the key sensitivity factors.

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