

Rating Rationale

Brickwork Ratings assigns ‘BWR BBB-’ & ‘BWR A3’ ratings for Bank Loan Facilities amounting to ₹ 274.92 Crore of Agarwal Industries Private Limited (AIPL)

Brickwork Ratings (BWR) has assigned the **Ratings**¹ of ‘BWR BBB-’ (Pronounced BWR Triple B Minus) for the long term Bank Loan facilities of ₹ 23.92 Crore and ‘BWR A3’ (Pronounced BWR A Three) for the Short term Bank Loan facilities of ₹ 251.00 Crore of Agarwal Industries Private Limited (“AIPL” or “the Company”).

Facility	Limits (₹ Cr)	Tenure	Rating
<u>Fund Based</u>			<i>BWR BBB-</i> <i>(Pronounced BWR Triple B Minus)</i>
CC	19.00	Long Term	<i>Outlook:Stable</i>
SLC	4.92		
<u>Non Fund Based</u>			<i>BWR A3</i> <i>(Pronounced BWR A Three)</i>
Letter Of Credit	221.00	Short Term	
Bank Guarantee	30.00		
Total	274.92	INR Two Hundred Seventy Four Crore and Ninety Two Lacs only	

BWR has principally relied upon the audited financial results up to FY 13, FY 14 provisional and further projected financials of Agarwal Industries Private Limited (AIPL), publicly available information and information/clarification provided by the Company management.

The rating takes cognizance of the vast experience of AIPL’s promoters with a long and established operational track record in the edible oil industry, strategically located port-based manufacturing facilities providing logistical advantages, its established market position in Andhra Pradesh’s edible oil market supported by strong distribution network and its diversified product portfolio. The ratings also continue to take into account the stable demand for the products the company deals in. However the rating strengths are partially mitigated by AIPL’s exposure to agro-climatic risks in procurement of raw materials along with volatility in the crude edible oil prices, foreign exchange fluctuation, thin profitability and its presence in a highly fragmented and intensely competitive edible oil industry. Nevertheless the company has strategies in place to limit the aforesaid risk to certain extent.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Background

Hyderabad based AIPL was incorporated in 1980 is primarily engaged in the manufacturing of edible oil. Presently AIPL is owned and managed by Agarwal group of industries (founded in the year 1950) with diversified business interest in edible oil production, sponge iron and transmission of towers. AIPL's edible oil refinery is strategically located at Kakinada port (Andhra Pradesh) with an installed capacity of 500 TPD (Ton per Day) (approx. 150000-165000 Metric Ton Per annum). AIPL sells edible oils such as palm oil, sunflower, bakery shortening, fats & Vanaspati under the flagship brand "Gold Mohar" in Andhra Pradesh and in other southern states

Operation

AIPL relies mainly on imported raw materials. Nearly 80% of its raw material requirements are met out of imports backed by LC. The company imports crude oil from some selected overseas suppliers. AIPL's manufacturing facility is located near Kakinada port and a dedicated pipe line is connected to its factory from port for smooth supply of crude oil

AIPL control a significant share in Andhra Pradesh's edible oil market for its products under the flagship brand "Gold Mohar" focusing on various market segments. The company through its wide range of products caters to varied consumer needs and is able to focus on a particular segment based on its requirements and price sensitivity. Furthermore, the company has also established a wide network of more than 5,000 distributors through which it sells its products majorly in southern parts of the country.

The product portfolio of AIPL consists of a wide range of products including edible oils, Vanaspati & Bakery Fats. The diversified product portfolio of the company enables it to mitigate the agro-climatic risk associated with a single product or change in customer preferences due to sudden movement in finished product prices. During FY14, sale of refined palm oil continued to contribute the largest to the total operating income of the company (~55%), followed by sunflower oil (~32%) and Vanaspati (~11%). Sale of refined palm oil contributed the highest to the total sales of refined edible oil, on account of lower prices compared with other edible oils in a price sensitive market. 100% of AIPL's revenue is generated from domestic market during FY14. Capacity utilization of AIPL's oil refining units is in the range of 80-85% in last two years

Management

Company's management team is led by Mr. Anirudh P. Agarwal, Chairman of AIPL. He has over four decades of experience in edible oil business. The Company is managed by Mr. Anirudh P. Agarwal & Family and has qualified personnel from the field of production; finance and administration to assist the top-level management

Financial Performance

As per FY 14 provisional the scale of operations of AIPL reduced by 7.85% Y-o-Y basis to Rs.853.68 Cr compared to Rs.926.37 Cr in FY 13 led by decline in sales on account of adverse political scenario in the state of AP. Operating margin of the company deteriorated by 125 bps to

3.11% in FY 14 as the company was unable to pass increase in prices of raw material owing to rupee depreciation during the initial quarters of the fiscal which rendered the price spread for imported commodities adverse in the domestic market. Further the Net profit margin reduced by 6 bps to 0.44% in FY 14. AIPL has high exposure of forex rates on account of its nature of operations which includes import of crude edible oil. Further, AIAL's profitability remained low and fluctuating due to its exposure to agro commodity prices and forex rates.

The solvency position improved as indicated by an overall gearing of 1.29x as on March 31, 2014, compared with 3.49x as on March 31, 2013. Interest coverage marginally improved to 1.36 times in FY 14 from 1.22 times in FY 13

Operations of AIPL continued to remain working capital intensive in nature with more than 75% of its total operating capital employed being deployed in net current assets for past three years ended FY14. AIPL has working capital limits which mainly include non-fund based limits and some portion of fund based limits. The company mainly uses non-fund based limits to finance its working capital requirements with LC tenure of 180 days (maximum). The average working capital limit utilization remained at 96% and 79% for non-fund based and fund based limits respectively during the trailing 12-months ended Sep 2014. Although the current ratio improved marginally, it continued to remain stressed at 1.28 times as on March 31, 2014. The operating cycle of AIPL continued to remain lean, largely on account of short collection period and sound inventory management coupled with use of non-fund-based facilities to get credit period from its suppliers.

Rating Outlook

Going forward, the ability of AIPL to improve its profitability while managing volatility in the agro-based raw material prices and increase the share of branded and value-added products in its sales mix shall be the key rating sensitivities.

Any further decline in its EBITDA margins from the current levels, larger than anticipated working capital requirement and any debt led capital expenditure would be negative from rating perspective. On the contrary in case there is improvement in operating margin and working capital management, thereby supporting its liquidity may result in positive rating action

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