

Rating Rationale

Brickwork Ratings revises ratings to ‘BWR BB+ & A4+’ for the Bank Loan facilities aggregating ₹ 350.92 Cr of Agarwal Industries Pvt. Ltd (enhanced from ₹ 274.92 Cr)

On a review, Brickwork Ratings (BWR) has revised the **Ratings¹** for the enhanced Bank Loan facilities of **Agarwal Industries Pvt Ltd** (“AIPL” or “the Company”) as follows:

Facilities	Previous limits (₹ Cr)	Present limits (₹ Cr)	Rating History (Nov 2014)	Rating [July 2016]
Fund based: Cash Credit SLC	19.00 4.92	71.00 4.92	BWR BBB- (Outlook: Stable)	BWR BB+ [Pronounced BWR Double B Plus] (Outlook: Stable) [Downgraded]
Non Fund based: Letter of credit BG	221.00 30.00	245.00 30.00	BWR A3	BWR A4+ (Pronounced BWR A Four Plus) [Downgraded]
Total	274.92	350.92	INR Three Hundred and Fifty Crores and Ninety Two Lakhs Only	

BWR has principally relied upon the audited financial results upto FY15, provisional financials of FY16, projected financials of Agarwal Industries Pvt Ltd of FY17, publicly available information and clarifications as provided by the Company’s management.

The revision of rating factors the stressed liquidity position of the Company during the current financial year owing to stretched receivables, high overall gearing levels, weakening profitability, below average debt protection metrics and exposure to agro-climatic risks and volatility in crude oil prices. The ratings, however, continue to draw strength from the established track record of business operations, and diversified product portfolio of the Company.

Background

Hyderabad based AIPL, 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 1950) with diversified business interests in edible oil production, sponge iron and transmission of towers. AIPL’s edible oil refinery is strategically located at Kakinada port (A.P) with an installed capacity of 500 TPD. AIPL sells edible oil such as palm oil, sunflower oil, bakery shortening, fats & vanaspati under the flagship brand “Gold Mohar” in A.P. & in other southern states. Nearly 80% of its raw material requirements are met out of imports backed by LC.

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

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. The Company has also established a wide network of more than 5,000 distributors through which it sells its products mainly in Southern parts of the country.

Management Profile

Mr. Anirudh P. Agarwal is the Chairman of AIPL. He has over four decades of experience in edible oil business. Mr. Satish K. Agarwal, Mr Muralilal Agarwal and Mr. Naresh Gupta are the other Directors. All the Directors are qualified professionals.

Financial Performance

Net sales improved to Rs 935.09 Crs in FY15 from Rs 841.40 Crs in FY14. Profit after tax improved to Rs 1.43 Crs in FY15 from Rs 1.17 Crs in FY14. Company's PAT and operating margins are thin at 0.09% and 2.01% respectively in FY16. Tangible net worth stood at Rs 73.77 Crs as on March 31, 2016. O/S debt was Rs 214.37 Crs as of March 31, 2016. TOL/TNW was also high at 3.72 times in FY16. ISCR and DSCR were low at 1.18 times and 1.16 times in FY16. ROCE was low at 6.94% due to low profits.

The Company is facing difficulties in debtors realisation during 2016-17. This has resulted in strained liquidity position. On a provisional basis, the Company has reported net sales of Rs 1025.34 Crs for FY16.

Rating Outlook

The rating outlook is expected to be stable over the current year. Going forward, the ability of AIPL to increase its profitability while managing volatility in the agro-based raw material prices, improve its liquidity, strengthen capital structure by way of infusion of share capital and ensure overall improvement in the financial risk profile are the key rating sensitivities. Any further decline in its PAT & EBITDA margins from the current levels, larger than anticipated working capital requirements and any debt led capital expenditure would be negative from rating perspective.

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