



## RATING RATIONALE

09 Mar 2020

### Ajanta Raaj Proteins Limited

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 25 Crores of Ajanta Raaj Proteins Limited ( ARPL or ‘the company’)**

#### Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (March, 2019)	Present
Fund based	25	25	Long Term	BWR BB+ (Stable) Assigned	BWR BB+ (Stable) Reaffirmed
<b>Total</b>	<b>25</b>	<b>25</b>	<b>INR Twenty Five Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

## RATING ACTION / OUTLOOK

BWR has reaffirmed the ratings of **Ajanta Raaj Proteins Limited** to BWR BB+. The reaffirmation of rating reflects the extensive experience of the management with a long track record in the dairy business which has helped the company forge long term association with reputed clients. The rating takes strength from the diversified dairy products portfolio which includes many high margin products in addition to the low margin products like Milk & SMP. The rating is also strengthened by the year-on-year growth in the sales of the company. The rating is, however, constrained by the low profitability margins, a moderate level of Network and gearing and the risks related to the day to day operations of the dairy business. The ‘stable’ outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the firm’s performance is likely to be maintained over the next few years.

## KEY RATING DRIVERS

### Credit Strengths:

- **Highly experienced management with proven track record:** The promoters of the company have decades of experience in successfully running the dairy business. The company has a successful track record in the leadership of Mr. Om Prakash Agarwal who started this venture in 1964.
- **Association with reputed clients for supply of its products:** Being in the business for

so long, the company has established long term relationships with its clients and it also supplies its products to various reputed companies like Vadilal Dairy International, Britannia Industries, Parle Products Ltd etc.

- **Diversified product portfolio:** The company has a diversified product portfolio of dairy products which range from Milk (33% contribution in sales in FY19) and Skimmed Milk Powder (SMP) (33% contribution in FY19) to Ghee (16% contribution in FY19) and Butter (12% contribution in FY19 sales). Other products like cream, paneer and additives together contributed around 4.50% to totals sales in FY19.
- **Consistently growing sales:** The sales of the company has been growing consistently over the years and it grew by ~22% in FY19 against FY18 sales. As per information from the management, the company has achieved sales of Rs.119.21 Crores in 9 months of the current fiscal till 31 Dec 2019.

#### Credit risks:

- **Low profitability margins:** The company's profitability margins have been on a lower side over the years and the operating profit declined to 2.69% in FY19 as compared to 3.30% in FY18, while the Net profit margin improved to 0.63% from 0.59% in FY18. The major contributing factor to a low profitability was the high contribution of low margin products like milk and SMP which contributed around 66% to total sales in FY19 (73% in F18).
- **Moderate networth & gearing position:** The company's tangible networth as on 31 March 2019 was at moderate level of Rs.12.60 Crores supported by Rs.1.60 crores of unsecured loans from promoters/directors. The overall gearing (TOL/TNW) was high at 3.57 times as on 31 Mar 2019.
- **Disputed recovery from one of the debtors:** There is an item of Rs.5.02 Crores which appears in the balance sheet of the company represents a disputed recovery to be made from one of its debtors. As per the management, the same is pending legal action and a delayed or unfavourable verdict might affect the networth of the company in the short to medium term.
- **Risk of weather Conditions and environmental factors:** A temperate weather is more conducive to higher milk production – the raw milk availability declines during summers. A drought or a rainfall deficit results in increased cost of cattle feed and reduced availability of cattle fodder thereby constraining milk supply. Such adverse weather and seasonal conditions may lead to a spike in raw milk prices.
- **Highly competitive & unorganized sector;** The Indian dairy industry is characterized by predominance of unorganized players which handle >50% of the marketable surplus milk. In the organized sector, the company faces tough competition from various well-established brands like Amul, Mother Dairy, Parag etc.



## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

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

## **RATING SENSITIVITIES**

**Positive:** Substantial growth in the company's scale of operations, improvement in profitability and the Networth position of the company.

**Negative:** Steep decline in sales or profitability of the company, deterioration of the financial risk profile in case of any debt-funded capital expenditure is undertaken and if there is any delay in the servicing of debt obligations.

## **LIQUIDITY POSITION : Adequate**

Liquidity of ARPL is marked by moderate cash accruals of Rs.1.46 Crores during FY 2019. The cash accruals of the company are expected to improve marginally or remain in the same range in FY 2020. The term loan repayment obligation stood at Rs.0.65 Crore for FY19, Rs.0.92 Crore for FY20 and is projected to be at Rs.0.87 Crore for FY21 which are sufficiently matched with the cash accruals generated or projected to be generated. The company's Cash Conversion Cycle has been improving year-on-year as it improved to 64 days for FY 2019 against 82 days for FY 2018 and 98 days for FY 2017. Cash & cash equivalents balance was Rs.0.41 Crore as on 31 Mar 2019. ARPL's current ratio was maintained at 1.20 times as on 31 March 2019 against the same level a year earlier. BWR believes that the company's liquidity will remain adequate over near to medium term on account of a steady increase in cash accruals.

## **COMPANY PROFILE**

Ajanta Raaj Proteins Limited (ARPL) was started as a firm in the year 1964 and was reconstituted as a company in the year 1996. The company is based out of Agra (Uttar Pradesh) and is into the business of processing milk and production of Dairy Milk Powder, Desi Ghee, Dried Skimmed Milk powder and Butter etc. The company has its processing plant in Agra and its installed capacity is 60 bags / hour of skimmed milk powder or 3,00,000 litres of milk per day. The company sells its products under brand name of Ajanta Premium, Ajanta Supreme and Mohak to wholesalers and retailers in the domestic markets. The company's major raw material is milk which it procures mainly from farmers.

### KEY FINANCIAL INDICATORS

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Income	₹ Crores	154.49	127.08
EBITDA	₹ Crores	4.15	4.19
PAT	₹ Crores	0.98	0.76
Tangible Net worth	₹ Crores	12.60	11.62
Total Debt / Tangible Net worth	Times	2.16	2.07
Current Ratio	Times	1.20	1.20

### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

**NON-COOPERATION WITH PREVIOUS RATING AGENCY:** CARE Ratings had reaffirmed the rating to CARE BB (Stable) Issuer Not Cooperating via rationale dated 04 March 2019.

### RATING HISTORY

Instrument / Facilities	Current Rating (March 2020)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	30 Mar 2019	2018	2017
Fund Based	Long Term	25	<b>BWR BB+</b> (Stable) Reaffirmed	<b>BWR BB+</b> (Stable) Assigned	-	-
Total		25	INR Twenty Five Crores Only			

### COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

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

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**Ajanta Raaj Proteins Limited**

**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	State Bank of India	Cash Credit	25	-	25
<b>TOTAL</b>					<b>25</b>

**Total Rupees Twenty Five Crores only.**

**For print and digital media**

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#### **DISCLAIMER**

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