



Rating Rationale

Ajay Agro Industries

9 Feb 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of Rs.8.50 Crs of Ajay Agro Industries (AAI).

Particulars

Bank Facility Rated	Sanctioned Limit (Rs. Crs)	Tenure	Rating ¹
Fund Based			
Cash Credit	6.50	Long Term	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable
Term Loan	2.00		
Total	Rs. 8.50 Crores (Rupees Eight Crores and Fifty Lakhs Only)		

¹For definitions of the rating symbol please visit our website www.brickworkratings.com

Rating Assigned:

Brickwork Ratings (BWR) has assigned the rating for Bank Loan Facilities of Rs. 8.50 Crs of **Ajay Agro Industries** ('AAI' or 'the Firm').

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the firm up to FY17, projections upto FY19 and publicly available information and information/clarifications provided by the management.

The rating continues to factor, inter-alia, established track record of proprietor in cotton processing sector diversification of business and proximity to raw material sources. However, the ratings are constrained by constitution being a proprietorship, low proprietor's capital, volatility risk faced by the concern with raw material prices. Going forward, ability of the concern to improve capital levels, improve margins and manage raw material price volatility would be key rating sensitivities.

Key Rating Drivers:

Experience of the proprietor: Proprietor of AAI Mr. Sanjay Agarwal, who possesses around two decades of experience in cotton ginning business.

Diversification of business: The firm started its operation with cotton seed oil extraction and now it has come up with diversification of business into cotton ginning.

Proximity to raw materials: AAI's manufacturing facility is located in the states of Madhya Pradesh which is one of the major cotton producing regions in India. Hence proximity to raw materials has ensured steady supply of raw materials at competitive rates.



Volatility in raw material prices and government regulations: The prices of cotton are highly regulated by the government through MSP (Minimum Support Price). However, the purchase and selling prices depend on the prevailing demand-supply situation that restricts bargaining power with suppliers and customers. Adverse movement of cotton prices further impacts profitability.

Thin profitability and proprietor's capital: The operating margins (EBIDTA) marginally decreased to 1.77% in FY17 from 1.84 % in FY16. The Profit after tax margins (PAT) improved to 0.71% in FY17 from 0.61% in FY16. Further the proprietor's capital is very low and it stood at Rs. 1.99 Crs as on 31st March, 2017.

Limited value addition: The firm undertakes ginning and cotton oil pressing process. Moreover, cotton ginning and pressing is a limited value additive nature of business as well highly competitive industry hence profit margin remains under pressure.

Constitution of the entity as proprietor firm: Constitution as a proprietorship has the inherent risk which can adversely affect its capital structure.

Fragmented and competitive nature of industry: Processing of pulses business is highly fragmented due to presence of small players owing to low entry barrier and low technology. Further low product differentiation also results in high competition in the industry.

Analytical Approach: Rating Criteria links are given in the end.

Rating Outlook: Stable

BWR believes **Ajay Agro Industries'** 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 revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the firm:

Ajay Agro Industries (AAI) is a proprietary concern started in 2010 having cotton seed oil Mill at pandana road Khandwa, MP. Mr. Sanjay Agarwal is proprietor of Ajay Agro Industries. The concern has diversified its business by installation of fully automatic Cotton Ginning Factory on land adjoined to the present cotton seed oil mill. The firm started its commercial operations of ginning unit in Dec, 2017. The manufacturing facility runs in two shifts in a day and being in the seasonal industry it operates for 7-8 months in a year.

Firm's Financial Performance:

As per audited financial statement of FY17, the firm has reported net sales/revenue of Rs. 46.90 Crs and PAT of Rs. 0.34 Crs against net sales/revenue of Rs. 39.15 Crs and PAT of Rs.0.24 Crs in FY16.

Key Financial ratios:

Particular	FY 2015-16	FY 2016-17
Net Sales (Rs Cr)	39.15	46.90
EBITDA (Rs Cr)	0.73	0.84
PAT (Rs Cr)	0.24	0.34
Tangible Net Worth (Analyzed) (Rs Cr)	0.99	1.22
Total Debt/TNW	3.79x	3.35x

Current Ratio	1.22x	1.28x
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Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No	Instrument /Facility	Current Rating (Year 2017)			Rating History		
		Type (Long term/Short Term)	Amt (Rs Crs)	Rating	2016	2015	2014
1	Cash Credit	Long Term	6.50	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	-	-	-
2	Term Loan		2.00				
Total			Rs. 8.50 Crores (Rupees Eight Crores and Fifty Lakhs Only)				

Status of non cooperation with Previous CRA : Non Applicable

Any other information: Non Applicable

Hyperlink/Reference to applicable Criteria

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

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For print and digital media

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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

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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