

## RATING RATIONALE

11 Jan 2020

### Ajit Agro Industries

## Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 7.00 crores of Ajit Agro Industries

### Particulars

Facilities	Previous Amount (₹ Crs)	Present Amount Rated (₹ Crs)	Tenure	BWR Rating History (Dec, 2018)	Rating**
Fund Based	7.00	7.00	Long Term	BWR BB- <u>Stable</u> Upgraded	BWR BB- <u>Stable</u> Reaffirmed
<b>Total</b>	<b>7.00</b>	<b>7.00</b>	<b>INR Seven Crores Only</b>		

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

\*\* Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

### RATING ACTION / OUTLOOK

BWR has reaffirmed the ratings of Ajit Agro Industries to BWR BB-; with Stable: Outlook. The reaffirmation in ratings reflects extensive experience of the partners, diversified revenue source, and improvement in the topline. However, the rating is constrained by low profitability margins, average financial risk profile, vulnerability of profitability to fluctuation in the cotton prices, and intense competition and fragmented nature of the industry.

The ‘stable’ outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the company’s performance is likely to be maintained in the medium term.

### KEY RATING DRIVERS

#### Credit Strengths

- **Extensive experience of promoters:** The promoters of the company have two to three decades of experience in the industry. Their experience and knowledge has helped them in maintaining long term relationships with their customers and suppliers.
- **Diversified revenue source:** The revenues of the company are diversified which comprise RUI, cotton seeds wash oil, cotton seed gad as well as cotton seed cake which is a by-product derived from the processing of oil from seeds. Further, the firm is also engaged in trading of soyabean.

- **Improvement in the topline:** The firm has registered improvement in the topline as the total operating revenue grew to INR 52.35 crores in FY 2019 as against INR 41.41 crores in FY 2018. The revenue is expected to take a dip in the current fiscal year i.e. FY 2020 as the MSP of the cotton has increased and the firm has reduced the quantity sold of the products but the revenue is expected to improve in the medium term.

### Credit risks

- **Low profitability margins:** The profitability margins marked by NPM and OPM of 3.15% and 0.85% respectively in FY 2019 are low and are expected to remain low in the medium term although the same tend to improve as the firm has projected to curtail the operating expenses and finance costs.
- **Average financial risk profile:** The financial risk profile of the firm is average, the gearing levels are moderate marked by the Total Debt/TNW and TOL/TNW of 1.92x and 1.68x respectively in FY 2019. Further, the coverage indicators are also not comfortable as the DSCR and ISCR were at 1.18x and 1.19x respectively in FY 2019. It is expected that the gearing is expected to improve and the indicators will improve in the medium term.
- **Vulnerability of profitability to fluctuation in raw cotton prices:** The profit margins are exposed to fluctuations in raw material (raw cotton) prices, which depend upon various factors like seasonality, climatic conditions, international demand and supply situation, export policy, etc. Further, it is also exposed to regulatory risks with regard to the MSP setup by the Government.
- **Intense competition and fragmented industry:** The firm faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins.

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

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

### **RATING SENSITIVITIES**

Going forward, the ability of the firm to achieve the projected revenue, improve the profitability margins, improve gearing levels, and improvement of the coverage indicators will be the key rating sensitivities.

**Positive:** Any substantial increase in revenue, profitability and improvement in overall financial risk profile.

**Negative:** Any steep decline in sales and profitability margins and degradation in the overall financial risk profile.

### LIQUIDITY POSITION

The liquidity position of the firm is adequate marked by the utilization between 40-45% of the fund based working capital limit of INR 7.00 crores and the liquidity ratios as reflected by the current ratio and the quick ratio of 1.75x and 0.41x respectively in FY 2019 but the liquidity position is constrained by the modest cash and cash equivalents of INR 0.09 crores in FY 2019.

### FIRM'S PROFILE

Constituted in 1997, Ajit Agro Industries is a Khandwa, Madhya Pradesh based partnership firm established by Mr. Ajit Singh Ubeja with his family members. The firm is engaged in the business of cotton ginning and pressing activity along with cotton oil extraction. The finished products of the firm comprise cotton bales, cotton seeds, cotton seed oil as well as cotton seed cake which is a by-product derived from the processing of oil from seeds. Further, the firm is also engaged in trading of soyabean and undertakes job work activity for other units pertaining to ginning and pressing located in and around Khandwa district.

### KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Total Operating Revenue	₹ Crores	52.35	41.41
EBITDA	₹ Crores	1.65	1.31
PAT	₹ Crores	0.44	0.33
Tangible Net Worth	₹ Crores	6.74	6.40
TOL/TNW	Times	1.68	1.05
Current Ratio	Times	1.75	2.09

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

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**



## RATING HISTORY

Facility	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	Dec, 2018	Feb, 2018	2017
Fund Based	Long Term	7.00	<b>BWR BB- Stable</b> Reaffirmed	<b>BWR BB- Stable</b> Upgraded	<b>BWR B+ Stable</b> Assigned	-
<b>Total</b>		<b>7.00</b>	<b>INR Seven Crores Only</b>			

## 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](#)
- [Manufacturing Entities](#)

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**Ajit Agro Industries**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (₹ Cr)</b>	<b>Short Term (₹ Cr)</b>	<b>Total (₹ Cr)</b>
<b>1.</b>	<b>Union Bank of India</b>	<b>Cash Credit</b>	<b>7.00</b>	<b>-</b>	<b>7.00</b>
<b>TOTAL</b>					<b>7.00</b>

**Total Rupees Seven Crores Only.**

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