Rating Rationale

Ajit Agro Industries

10 Dec 2018

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of ₹. 7.00 Crores of Ajit Agro Industries.

Particulars

Facility	Previous Amount (₹ Crs)	Present Amount (₹ Crs)	Tenure	BWR Rating History (Month, Year)	Rating*
Fund based Cash Credit	7.00	7.00	Long Term	**BWR B+ (Pronounced as BWR Single B Plus)** Outlook: Stable	**BWR BB- (Pronounced as BWR Double B Minus)** Outlook: Stable (Upgrade)
Total	**7.00**	**7.00**	**INR Seven Crores Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the Firm upto FY18 and projected financials for FY19 and FY20, publicly available information and information/clarifications provided by the management.

The rating draws strength from the extensive experience of promoters, plan for capital infusion, increased production capacity and diversified revenue sources. The rating, however, is constrained by modest scale of operations, vulnerability of profitability to fluctuations in raw cotton prices and intense competition in the fragmented industry.

Description of Key Rating Drivers

Credit Strengths:

Extensive experience of promoters: The promoters of the company have decades of experience in the industry. Their experience and knowledge has helped them in maintaining long term relationship with their customers and suppliers.

Plan for capital infusion and increased production capacity: The capital of the firm has increased from Rs. 5.75 Cr. in FY17 to Rs. 6.40 Cr. in FY18 on account of capital infusion. Further, the firm is planning to infuse more capital into the business by the year end, which will increase the capital to Rs. 7 Cr, in FY19. Also, the firm has increased their manufacturing capacity from 150 quintals per day to 225 quintals per day.

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.

Credit Risks:

Modest Scale of operations: The total operating income has increased from Rs. 40.56 Cr. in FY17 to Rs. 41.41 Cr in FY18. Till 27-Nov-2018, the firm has achieved a sales of Rs. 29.75 Cr. However, looking at the industry, the scale of operations of the firm remains modest.

Average debt protection metrics: Though the firm's debt protection metrics has shown improvement over the years. The ISCR has increased from 0.98 times in FY17 to 1.18 times in FY18. However, the debt protection metrics still remain average.

Vulnerability of profitability to any 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

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

Rating Outlook: Stable

BWR believes the **Ajit 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 Company

Ajit Agro Industries (AAI), was constituted as a partnership firm in 1997 by Mr Ajit Singh Ubeja along with his family members, to primarily undertake the business of cotton ginning and pressing activity along with extraction of cotton oil.

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.

Company's Financial Performance

The total operating income has increased from Rs. 40.56 Cr. in FY17 to Rs. 41.41 Cr in FY18. Till 27-Nov-2018, the firm has achieved a sales of Rs. 29.75 Cr. The PAT has remained stagnant at Rs. 0.33 Cr. Tangible Net Worth has increased from Rs. 5.75 Cr in Fy17 to Rs. 6.40 Cr. in FY18 on account of capital infusion and ploughing back of profits. The firm's debt protection metrics has improved with an ISCR of 1.18 times in FY18 as against 0.98 times in FY17. Operating profit margin has increased from 2.73% in FY17 to 3.16% in FY18.

Rating History for the last three years

S.No	**Instrument /Facility**	**Current Rating (Dec 2018)**			**Rating History**		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Feb 2018	2017	2016
	Fund Based Cash Credit	Long Term	7	**BWR BB- (Pronounced as BWR Double B Minus)** Outlook: Stable **Upgrade**	**BWR B+ (Pronounced as BWR Single B Plus)** Outlook: Stable	**N/A**	
	Total		**7**	**₹ Seven Crores Only**			

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	41.41	40.56
EBITDA	₹ Cr	1.31	1.11
PAT	₹ Cr	0.33	0.33
Tangible Net worth	₹ Cr	6.40	5.75
Total Debt/Tangible Net worth	Times	1.22	2.61
Current Ratio	Times	3.99	2.70

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies

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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, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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