



## Rating Rationale

**Araul Refrigeration Industries Private Limited**

**22 Jan 2019**

**Brickwork Ratings assigns the ratings for the bank loan facilities of ₹ 35.75 Crores of Araul Refrigeration Industries Private Limited.**

## Particulars

Facilities Aailed	Amount to be Rated (Cr)	Tenure	Rating Assigned^
<b>Fund Based</b>			
Cash Credit	30.75	Long term	BWR BB (Pronounced as BWR Double B) Outlook: Stable
Term Loan	5.00		
Total Amount	35.75*	Rs. Thirty Five Crores and Seventy Five Lakhs Only	

\* Inclusive of proposed limits as follows:

CC: Rs10.00Cr and TL : 5.00 Crs

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

**Assigned Long Term rating assigned BWR BB ( Outlook: Stable) for the bank loan facilities of Araul Refrigeration Industries Private Limited. ('ARIPL' or 'the company').**

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY18, projections for FY19 and FY 20 and publicly available information and information/ clarifications provided by the company.

The rating has, interalia, factored in experience of the directors in their line of business activity, long standing relationships with buyers & suppliers, diversified revenue stream and moderate debt protection metrics in FY18.

The rating is, however, constrained by high gearing ratio, risks related to agri-based business such as climatic risks, fluctuations in the prices for procurement and sale, besides small and declining scale of operations and flat profitability margins over the last three fiscal years and working capital intensive nature of operations.

**22 Jan 2019**



The company's Cash Credit facility has an average utilisation of 80%- 90% over the 12 months ended November 2018. Utilization of working capital limits is higher in September to March. The company has cash accruals of Rs.1.59 Cr in FY18. Conversion cycle has increased from 53 days FY17 to 71 days in FY18 due to increase in inventory levels.

### **Key Rating Drivers**

#### **Credit Strengths**

- **Experienced Directors** – The key director of the company is Mr. Krishna Kumar, who has an experience of more than 40 years in the field cold storage and oil extraction. Mr. Kumar is assisted by other family members actively involved in the day-to-day business activities along with other experienced personnel. The company maintains long standing relationships with buyers & suppliers.
- **Diversified revenue stream:** The company has diversified product offerings as they are involved in oil extraction and cold storage business. Further, the company has plans to enter into the field of polished rice manufacturing. However, major revenue of more than 90% is contributed by the solvent edible oil extraction plant over the past three years.
- **Comfortable debt protection metrics** - The company has moderate debt protection metrics viz. ISCR and DSCR which stood at 1.77x & 1.11x respectively in FY18

#### **Credit Weakness:**

- **Risks related to business such as climatic risks, price fluctuations risks, foreign exchange fluctuations etc** - The company's business operations are highly exposed to the risks arising out of variations in climatic conditions. Crops are highly dependent on monsoons which is likely to affect the availability of the crop in instances of adverse conditions and also bring about volatility in prices.
- **Working capital intensive operations** - The working capital cycle of company was at 71 days in FY18 as against 53 days in FY17 on account on higher inventory holding period. The company maintains stock levels of domestically purchased goods for 7 months in off season.
- **High Overall Gearing** : The gearing of the company viz. TOL/TNW was high at 6.27x in FY18 vis-a-vis 6.07x in FY17 owing to consistent withdrawal of capital by promoters since FY16.
- **Small scale of operations and flat profitability since last three fiscal years** : The scale of operations of the company has been on a declining trend with a negative CAGR of 3.39%. Operating turnover has been in the range of Rs.119Cr to Rs. 103 Crs in last three fiscal years. Further, PAT has remained flat at Rs.0.37Crs in FY18 and FY17.



**Rating Outlook: Stable**

BWR believes the **Araul Refrigeration Industries Private Limited**'s 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**

Araul Refrigeration Industries Private Limited was incorporated on 29 May 1984 and is based in Kannauj (UP). It is involved in production, processing of solvent (de-oiled cakes) and refined edible oil. The company is also in the field of cold storage. The directors of the company are Mrs. Krishna Narain Kapoor, Mr. Ashish Kapoor, Mr. Shashi Kapoor and Mrs. Sugandha Kapoor.

**Company Financial Performance**

Key Parameters	Unit	FY 17 (Audited)	FY18 (Audited)
Total Operating Income	Cr	119.79	103.32
OPBDIT	Cr	3.94	3.59
PAT	Cr	0.38	0.37
Tangible Net Worth	Cr	4.41	4.75
Current Ratio	Times	1.10	1.07

**Status of non-cooperation with previous CRA: NA**

**Rating History for the last three years (including withdrawn/suspended ratings)**

Facility	Tenure	Rating Assigned (2019)		Rating History		
		Amount (Rs. Crs)	Rating	2018	2017	2016
<b>Fund Based - Cash Credit</b>	Long Term	30.75	BWR BB (Pronounced as BWR Double B) (Outlook : Stable)	-	-	-
<b>Term Loan</b>		5.00		-	-	-
<b>Total</b>		35.75*	Rs. Thirty Five Crores and Seventy Five Lakhs Only			

\* Inclusive of proposed limits as follows:



CC: Rs10.00Cr and TL : 5.00 Crs.

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Service Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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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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