RATING RATIONALE

04 Dec 2020

Aroma Agrotech Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.136.43 Crs of Aroma Agrotech Pvt Ltd

Particulars:

Facility	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (27 Dec 2019)	Present
Fund Based	18.77	16.43	Long Term	BWR BBB+ Stable	BWR BBB+ Stable (Reaffirmed)
Fund Based	120.00	120.00	Short Term	BWR A2	BWR A2 Reaffirmed
Total	138.77	136.43	Rupees One Hundred Thirty Six crores and Forty Three Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Reaffirmation in the ratings of bank loan facilities of Aroma Agrotech Pvt Ltd (AAPL or the company), factors in growth in revenues and improvement in overall financial risk profile, as indicated by improvement in profit margins, net worth position, gearing and debt coverage metrics, besides the experience and support of the promoters. Revenues of the company have been growing year-on-year despite challenging domestic and global economic conditions. Liquidity in the company is adequate with comfortable net working capital, moderate average utilisation of working capital facilities and promoters' continued financial support in the form of unsecured loans.
The ratings are, however, constrained by thin profitability margins, high industry fragmentation and competition, business concentration risks and susceptibility of the business to agro climatic factors which are beyond the control of the company.

Going forward, the company has projected modest growth of ~8% in total revenues along with marginal improvement in operating profit margin and net profit margins in FY21 and FY22. Further, owing to favourable industry outlook and expected stability in raw material prices, due to better monsoons this year, BWR expects the company to achieve the projected revenues of ~Rs.800 crs in FY21 and ~Rs.860 crs in FY22 along with stable operating profit margins during FY21 and marginal improvement in the same during FY22. As the company does not propose any debt funded capex, overall gearing is expected to improve in line with improvement in net worth position due to retention of profits in the business.

Covid-19 Impact :Due to the essential nature of the commodity being processed by the company, the plant was operating with full capacity, and the company could generate provisional revenues of Rs.362 crs during 6MFY21 and expects to close the FY21 with total revenues of ~Rs.800 crs. The company did not avail moratorium on loan servicing during March 2020 to August 2020, as announced by RBI under COVID 19 regulatory package. The company also did not avail COVID 19 emergency line of funding either and does not propose OTR (One Time Restructuring) under one time loan recast window announced by RBI.

Outlook: Stable

BWR believes the Aroma Agrotech Pvt Ltd.'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.

KEY RATING DRIVERS

Credit Strengths

Experienced Management: The company is a family owned and family run business entity with Anil Kumar Garg, Praveen Garg, Sushil Kumar Garg and Vinod Kumar Garg (all brothers) as the directors in the company. All the promoters and directors have decade long experience in this line of activity.

Revenues (Growth): Revenues of the company have been growing during the past two years despite challenging domestic and global economic conditions, sanctions on Iran (major export market for the company) by U.S, COVID 19 pandemic etc. Operating revenues improved by almost 16% during the past year due to better demand for products and higher export orders. During FY20, the company has generated operating revenues of Rs.737 crs against revenues of Rs.633 crs during FY19 and Rs.539 crs during FY18.

Orders in Hand: On a provisional basis, the company has already booked revenues of approx. Rs.362 crs during 6MFY21 and has confirmed export orders worth ~Rs. 121 crs to be fulfilled till Dec. 2020. There is a good visibility of projected revenues of ~Rs.800 Crs being achieved in FY21.

Net Profit Margins: Profit margins are generally thin owing to low value addition, fluctuating raw material prices and intense competition. Due to lower depreciation and borrowing expenses and higher non operating income, net profit margins were almost stable at 1.84% during FY20 against 1.86% in FY19.

Networth and Gearing: During FY20, TNW of the company has improved to Rs.80.81 crs against Rs.67.23 crs in FY19 due to retention of profits in the business. Gearing (Total Debt/TNW ratio) has improved to 2.18x (P.Y 3.07x) and overall gearing (TOL/TNW ratio) has improved to 2.73x from 3.78x in the previous year, due to improvement in net worth position.

Gearing in the company is comfortable considering the seasonality in the business and average high gearing for the rice industry.

Debt Protection metrics: During FY20, debt protection metrics improved to 2.41x (ISCR) and 1.96x (DSCR) against 2.19x and 1.82x respectively during FY19. Improvement in these metrics is due to growth in profits, whereas borrowing expenses declined due to rational utilisation of working capital facilities.

Credit Risks:

Agro based Industry dependent on vagaries of nature and climatic factors: Rice (Paddy) is the key input into the business. Paddy is a Kharif crop, production of which depends on monsoons. Any adversity on the timely and adequacy of rainfall, given the highly uneven pattern of rainfall observed in the last few years, would drastically affect the availability and price of paddy thereby affecting profitability of the business.

High competition and fragmentation: Due to lower entry barriers by limited capital and technological requirements, small gestation period and easy availability of RM, industry is characterised by presence of large numbers of small and medium players reducing bargaining power with buyers and creating high fragmentation and competition in pricing of finished goods.

Concentration risks: Revenues are primarily export oriented towards Saudi Arabia (SA), as almost 80% of the total annual revenues are derived from exports and of the total exports, almost 60% of the exports are directed towards SA.

Operating Profit Margins: During FY20, operating margins declined to 4.83% against 6.44% and 5.43% during FY18 and FY19 respectively.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Positive: Growth in scale of operations as per projections, improvement in tangible net worth, net profit margins and debt protection metrics and overall gearing would support positive rating action, amongst other factors favouring an upgrade.

Negative: Decline in revenues and/or deterioration in profit margins and gearing would attract adverse rating action, notwithstanding any negative sector outlook on basmati rice export. Debt funded capex, if any undertaken, should be supported through additional equity infusion to retain the capital structure of the company.

LIQUIDITY POSITION : ADEQUATE

Liquidity in the company is adequate with cash accruals of Rs.18.92 crs against term debt obligations of Rs.2.45 crs during FY20. During FY21 and FY22, the company is expected to generate cash accruals of Rs.17.50 crs and Rs.18.13 crs respectively against term debt obligations of Rs.2.44 crs each during FY21 and FY22. Business operations of the firm are working capital intensive with high inventory holding of approx. 122 days during FY20 against 141 days and 131 days during FY18 and FY19 respectively. NWC of the company is Rs.62.51 crs as on 31st March 2020 and average utilisation of WC facility at approx. 78% for 12 months ending October 2020. Unsecured loans (USL) of Rs.7.21 crs from directors, promoters and their relatives have been infused in the business as on 31st March 2020 and these USL are expected to be retained in the business during next two FYs. Going forward, the company does not propose any debt funded capex and thus liquidity is expected to improve further due to plough back of profits in the business operations.

COMPANY PROFILE

Aroma Agrotech Pvt Ltd (AAPL), incorporated on 30 Sept 2009, with its registered office at Shop No. 145, First Flor, New Grain Market, Gharaunda, Karnal, is engaged in the manufacturing and sales (export and domestic) of basmati and non-basmati rice. Production facility is located in Gharaunda, Haryana with a total installed capacity of 384000 MT per annum. The company is a family owned entity with Anil Kumar Garg, Praveen Garg, Sushil Kumar Garg and Vinod Kumar Garg as the directors in the company.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2019(Aud)	2020 (Aud.)
Operating Revenue	Rs. crs	633.06	737.14
EBITDA	Rs. crs	34.39	35.59
PAT	Rs. crs	11.79	13.58
Tangible Net worth	Rs. crs	67.23	80.81
TOL/TNW	Times	3.78	2.73
Current Ratio	Times	1.19	1.29

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : N.A

RATING HISTORY for the past three years (Including withdrawn and suspended)

Instrument /Facility	Current Year (2020)			Rating History (Rs. in Crs)								
	Current Rating			27 Dec 2019			14 Dec 2018			21 Dec 2017		
Bank Loan Facility	FB	Rs.16.43 crs	BWR BBB+ (Stable)	FB	Rs.18.77 crs	BWR BBB+ (Stable)	FB	Rs21.11 crs	BWR BBB+ (Stable)	FB	Rs.23.42 crs	BWR BBB (Stable)
	FB	Rs.120crs	BWR A2	FB	Rs.120 crs	BWR A2	FB	Rs.120 crs	BWR A2	FB	Rs.120 crs	BWR A3

ANNEXURE I

Aroma Agrotech Pvt Ltd

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	Punjab National Bank (erstwhile OBC), MCC, Namastay Chowk, Karnal	Cash Credit	2.40	NIL	2.40
2		PC/PCFC	NIL	28.80	28.80
3		FBDP/FUDBP	NIL	(28.80)	(28.80)
4	Canara Bank, MCB, SCO 08, Sector 12, Panipat	Cash Credit	6.00	NIL	6.00
5		PC/PCFC/FDB/FBE/BRD	NIL	72.00	72.00
6		TL 1	1.21	NIL	1.21
7		TL 2	5.22	NIL	5.22
8		PC/PCFC	NIL	(57.00)	(57.00)
9	UCO Bank, Sector 17B, Bank Square, Chandigarh	Cash Credit	1.60	NIL	1.60
10		EPC/PCFC	NIL	19.20	19.20
TOTAL			16.43	120.00	136.43

Total Rupees One Hundred Thirty Six crores and Forty Three Lakhs only.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short Term Debt
- Manufacturing Companies

Analytical Contacts	
[Saurabh Agarwal] **Senior Rating Analyst** [Board: +91 11 23412232] [saurabh.a@brickworkratings.com]	**[Ashwini Mital]** **[Director – Ratings]** [Board: +91 172 5032295/96] [ashwinimital@brickworkratings.com]
1-860-425-2742 I media@brickworkratings.com	

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters 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.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.