



Rating Rationale

09 Jun 2020

Arora Aromatics Pvt Ltd

Brickwork Ratings upgrades the long and short term ratings, with a stable outlook, for the Bank Loan facilities aggregating Rs.92 Crs of Arora Aromatics Pvt Ltd .

Particulars:

| Facility# | Amount (₹ Crs) | | Tenure | Rating [^] | |
|----------------|----------------|--------------|------------------------------------|------------------------------|---------------------------------|
| | Previous | Present | | Previous** (05 Feb 2019) | Present |
| Fund based | 96.00* | 92.00* | Long Term | BWR BBB Stable | BWR BBB + Stable Upgraded |
| | NIL | (25.00) | Short Term | BWR A3+ | BWR A2 Upgraded |
| Non Fund Based | (10.00) | (10.00) | Short Term | | |
| Total | 96.00 | 92.00 | Rs. Ninety Two Crores Only. | | |

*Full interchangeability from PC to PSC Limit.

** Advisory issued on 13 May 2020.

#Please refer to Annexure I for bank facilities details.

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

RATING ACTION / OUTLOOK

The upgrade in the ratings of Arora Aromatics Pvt Ltd (AAPL or the company) factors in improvement in its turnover and key financial parameters in FY19, besides a healthy liquidity profile indicated by a comfortable current ratio of 1.45x and improved cash conversion days of 39 days. BWR believes that the trend is likely to remain in the medium term.

The rating also derives comfort from the promoters' experience in the manufacturing of menthol and aroma chemicals, long standing association with many large national and international players, such as Colgate-Palmolive Company, Hindustan Unilever Ltd, Unilever PLC amongst others. The ratings are, however, constrained by the risk of loss of orders from clients in absence of any long term contractual



obligations, intense competition from the other established players in the industry and susceptibility of the company's margins to competition in the menthol industry, as well as the volatility in product prices.

Going forward, the ability of the company to maintain the growth in its scale of operations and profitability margins, manage the volatility in raw material prices and overall improvement in credit profile, would be the key rating sensitivities.

Impact of COVID 19: The company is registered under FSSAI, Food Safety & Drug Administration, Govt of UP, and its products are also used in various medicinal products and therefore its manufacturing plants were operational during the lockdown. Further, AAPL is getting enhanced orders from medicinal and food product end users. The only effect of COVID 19 on AAPL, during the lockdown period, was that in the initial days there were curbs on inward and outward supply of goods due to insufficient availability of labour and transportation services; however the same became available after sometime. Due to COVID-19 and temporary disruption in trade between India and China, AAPL is now exporting directly to Japan, Germany, France etc.

Rating Outlook: Stable

BWR believes the Arora Aromatics Pvt. Ltd's business risk profile is likely to 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:

- **Increase in revenue and order in hand position:** Total Operating Income (TOI) of the company increased substantially in FY19, registering a y-o-y growth of 97.60% to Rs.493.19Cr (PY: 233.19Cr), including the export revenue of Rs.404.39Cr (PY: Rs.185.99Cr). Further, BWR is advised that the company has registered a revenue of Rs.510.86Cr in FY20 (provisional). AAPL's TOI has registered a CAGR of 43.48% for FY 17~20. The increase in revenue is on account of substantial increase in the export sales post FY18, coupled with favourable increase in the Mentha Oil prices across the globe.
- **Increase in profitability and Margins:** PAT of the company has substantially improved in FY 19 registering a y-o-y growth of 84.11% vis-a-vis FY18, and the same stood at Rs.18.72Cr (PY: 3.41Cr) and Rs.34.22Cr in FY 20 (provisional). Further, the OPM & NPM margins stood at 7.05% (P.Y.3.86%) & 3.80% (P.Y 1.46%), respectively for FY19. The margins improved owing to addition of Cis-3-Hexenol, Geraniol Acetate along with their esters, post FY18, in its product offerings coupled with technological advancement of the manufacturing unit which has increased the oil extraction capacity from the mentha leaves.



- **Comfortable Financial Position:** The overall gearing (TOL/TNW ratio) of the company continues to remain at comfortable levels for the past three financial years. The same stood at 1.10x in FY19 and 0.68x in FY 20 (provisional). ISCR of the company has improved to 16.49x (PY: 3.85x) and owing to substantially improved EBITDA. Further, the company has nil long term repayment obligations.
- **Hedging practices:** The company hedges the entire raw material requirement either on commodity exchanges or by purchasing physical inventory upfront. This removes risks related to volatility in the prices of mentha oil. The company hedges 100% of its forex exposure by entering into forward contracts, thus ensuring stability in margins.
- **Experience of the promoters and a diversified customer base:** AAPL is promoted by Mr.Arvind Kumar Arora, who has been involved in the menthol oil industry for more than three decades. The company has a diversified customer base and is catering to varied industries like food items, bakery, pharmaceuticals, etc. The established relationship with the customers has enabled the company to receive repeat orders with many large national and international players, such as Colgate-Palmolive Company, Hindustan Unilever Ltd, Unilever PLC, amongst others.

Credit Weaknesses

- **Absence of contractual obligations with the Customers:** The company is associated with customers spread across the globe. Further, being an 85% export oriented unit, the company is always exposed to the risk of losing business in the absence of any long term contractual obligations.
- **Susceptibility to intense competition in the menthol industry -** The company operates in the menthol industry, which is not capital or technology intensive, resulting in low entry barriers. Consequently, the industry is highly fragmented. This results in intense industry competition. Also, there is limited differentiation in products of different players, because of which buyers have a high bargaining power. The company also faces competition with synthetic menthol manufacturers, although the uses for natural and synthetic menthol are largely different.

Analytical Approach

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

RATING SENSITIVITIES

Positives: The rating is sensitive to the achievement of projected sales revenues, improvement in profitability margins, improvement in network, with stable debt protection metrics and moderate liquidity parameters.



Negatives: An adverse rating action may be taken in the next review if the company's margins deteriorates from the current levels, there is a decline in profitability margins and operating income estimated for FY21 is not achieved.

Liquidity : Adequate

The company has sufficient cash accruals of Rs.20.50 Crs in FY19 and Rs.35.91Crs in FY20 (provisional), against long term repayment obligations in FY20, with moderate TNW of Rs.61.94Crs in FY19. Further, the company is generating an average EBITDA of Rs.18.65Crs for FY 17~20 as against average finance charges of Rs.2.35Crs for the same tenure, reflecting an healthy liquidity position of the company. The conversion cycle of the company has also improved to 37 days in FY19 vis-a-vis 39 days in FY18 .

About the Company

Arora Aromatics started its operation in 1976 and merged with Arora Aromatics Pvt. Ltd. in 2013. It has its registered office at Moradabad, UP. AAPL manufactures mentha crystals, peppermint oil and other essential oils which find application in the pharmaceutical, food,tobacco, and cosmetic industries. Around 85 % of the company's revenue is contributed by exports. The manufacturing unit has a capacity of 5000MTs and is currently utilizing 57% only. Mr.Arvind Kumar Arora and Mrs. Sodhna Arora are the directors of the company.

Key Financial Indicators

| Key Parameters | Units | FY 18 | FY 19 |
|------------------------|--------------|----------------|----------------|
| Result Type | | Audited | Audited |
| Total Operating Income | Rs. Crs | 233.19 | 493.19 |
| OPBDIT | Rs. Crs | 9.00 | 34.75 |
| PAT | Rs. Crs | 3.41 | 18.72 |
| Tangible Net worth | Rs. Crs | 43.21 | 60.96 |
| TOL/TNW | Times | 1.14 | 1.10 |
| Current Ratio | Times | 1.45 | 1.45 |

RATING HISTORY (including ratings suspended/withdrawn)

| Facilities | Current Rating (2020) Rs. Crs | | | Rating History for the past 3 years (Amount in Rs. Crs) | | | | | | | | |
|------------|----------------------------------|---------|-----------------------|------------------------------------------------------------|---------|----------------------|-----------------|---------|------------|-----------------|-------|-----------|
| | Rating | | | 05 Feb 2019* | | | 02 Aug 2018 | | | 08Mar 2017 | | |
| Bank Loan | FB | 92.00 | BWR BBB+ Stable | FB | 96.00 | BWR BBB Stable | FB (Short term) | 60.00 | BWR A3+ | FB (Short term) | 60.00 | BWR A3 |
| | NFB | (10.00) | BWR A2 | NFB | (10.00) | BWR A3+ | NFB | (10.00) | BWR A3+ | NA | | |

* Issued Advisory press release as on 13 May 2020.

Status of non-cooperation with previous CRA : NIL

Any other information: Not Applicable

Hyperlink/Reference to Applicable Criteria

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

| Analytical Contacts | Investor and Media Relations |
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Arora Aromatics Pvt Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

| Sl. No. | Name of the Bank | Type of Facilities | Long Term (₹ Crs) | Short Term (₹ Crs) | Total (₹ Crs) |
|--------------|------------------|--------------------------|-------------------|--------------------|---------------|
| 1 | Allahabad Bank | Packing Credit | 30.00 | - | 30.00 |
| 2 | | FBP/Post Shipment Credit | 50.00 | - | 50.00 |
| 3 | | Stand by Limits PC/FBP | 12.00* | - | 12.00* |
| 4 | | PCFC (Sublimit of PC) | - | (25.00) | (25.00) |
| | | ILC (Sub Limit of PC) | - | (2.50) | (2.50) |
| | | FLC (Sub Limit of PC) | - | (2.50) | (2.50) |
| | | BG (Sub Limit of PC) | - | (5.00) | (5.00) |
| TOTAL | | | | | 92.00 |

*Full interchangeability from PC to PSC Limit.



Total :Rs.Ninety TwoCrores Only

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