Rating Rationale

Brickwork Ratings reaffirms 'BWR A4+' for Bank Loan Facilities amounting to ₹ 40.00 Cr of Arora Aromatics Private Limited

Brickwork Ratings (BWR) reaffirms the **Rating**[1] 'BWR A4+' to the below mentioned outstanding bank loan facilities from Allahabad Bank.

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based **PC** **FBP/Post Shipment Credit**	**15.00** **25.00**	**Short Term**	**BWR A4+** (Pronounced BWR A Four Plus)
Total	**40.00**	**(INR Forty Crore only)**	

BWR has principally relied upon the audited financial results of Arora Aromatics Pvt. Ltd up to FY 14 and further projected financials, publicly available information and information/clarification provided by the Company management.

The rating continues to draw support from rich experience of the promoters, diversified product mix and benefit extended by the govt. through various export incentives. The ratings are, however, constrained by volatility in input prices, low capacity utilization and thin operating profit margins. The rating constraints are partially mitigated by company's competitive advantages gained through favorable plant location at Sambhul with proximity to raw material sources and improvement in capital structure on the back of equity infusion by the promoters.

Background

Arora Aromatics was a proprietary concern of Mr. Arvind K. Arora, which commenced its operation in 1976. It is one of the largest manufacturers for menthol crystals in India. In FY 14 the said entity took on a corporate structure by merging with Arora Aromatics Pvt ltd.-(AAPL) which was incorporated in Apr 2012 for this purpose. Arvind Arora holds a significant portion of equity of the company. AAPL is engaged in manufacturing menthol crystals, peppermint oil and other essential oils which find application in the pharmaceutical, food, tobacco, and cosmetic industries. Around 85 -90 % of company's revenue is contributed by exports. AAPL has its manufacturing unit at Sambhal, UP with annual installed capacity of 3000 Ton and operating in the range of 65-70% capacity utilization. AAPL enjoys locational advantages in terms of easy availability of basic raw material i.e. Mentha

Financial Performance

AAPL reported total operating income (TOI) of Rs.167.12 Cr during FY 14 against Rs.258.22 Cr in FY 13 which represents decline of about 35% majorly attributable to steep fall in mentha

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

prices internationally .However the operating margins of the company improved by 110 bps to 2.87% in FY 14 mainly on account of lower proportionate cost of material consumed. In FY14 exports accounted for 92% of total sales. Further increase in interest cost and forex loss resulted in lower PAT margin by 46 bps to 0.79% in FY 14. AAPL's profitability remained low and fluctuating due to its exposure to agro commodity prices and forex rates.

The capital structure has been reworked in the company, and overall Net Worth moved up significantly to Rs. 35.08 Cr which includes revaluation reserves worth Rs.15.00 Cr. The company has no term debt, and avails only working capital borrowings. Thus, the gearing ratio is low, even if USLs of Rs.11.15 Cr (as on 31st Mar, 2014) are not classified as quasi-equity. Company's receivables and payables levels are optimal, and liquidity is comfortable. Average utilisation of bank limits was also moderate.

Rating Outlook

AAPL has rightly moved to a corporate structure from the proprietory constitution it had earlier. Outlook for the next year is expected to be stable. Going forward, AAPL's ability to increase the scale operations by optimally utilizing its working capital limits and installed capacity will remain the key rating sensitivities.

The outlook may be revised to 'Positive' in case AAPL improves its operating profitability margins, while maintaining healthy revenue growth or there is an improvement in its working capital management. Conversely, the outlook may be revised to 'Negative' if there is a steep decline in its profitability margins from the current levels or there is significant deterioration in AAPL's capital structure on account of larger-than-expected working capital requirements or large debt-funded capex.

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