



RATING RATIONALE

Awadh Oils Pvt Ltd

18 May 2020

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹ 7.50 Crores of Awadh Oils Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2019)	Present
Fund based Cash Credit	7.50	7.50	Long Term	BWR BB-Stable (Reaffirmed)	BWR BB-Stable (Reaffirmed)
ODBD (Sublimit of CC)	-	(4.50)			
Total	7.50	7.50	INR Seven Crores and Fifty Lakhs Only		

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

RATING ACTION/OUTLOOK :

BWR reaffirms the ratings of Awadh Oils Pvt Ltd's ("AOPL" or "The Company") bank loan facilities of Rs 7.50 Crs based on the extensive business experience of the promoters, favourable location of the extraction plant, moderate gearing ratio and debt service indicators and liquidity. However, the rating is constrained by the modest net worth, modest scale of operations and thin portability margins, presence in the highly competitive and fragmented industry and the impact of the agro climatic conditions on the business revenue and profitability.

BWR believes that Awadh Oils Pvt Ltd 's business risk profile will be maintained over the medium term. BWR has essentially relied upon the audited financial statements of Awadh Oils Pvt Ltd up to FY 19, projected financials for FY20, publicly available information and information/clarifications provided by the entity's management.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of the promoters:** The company has been in existence for more than two decades and the promoters have gained rich experience in processing and trading of edible oil.



The directors Rajendra Goyal and Vipin Goyal have an experience of about three decades in this field.

- **Favourable Location:** The extraction unit is located favourably in Morena with proximity to the mustard producing belt in Madhya Pradesh ensuring easy availability of raw material and cost savings.
- **Moderate gearing:** The Total Debt/ TNW standing at 1.22x in FY19 as compared to 1.61x in FY18 and the TOL/TNW standing at 1.25x in FY19 as compared to 1.76x in FY18 is moderate.
- **Debt Protection Metrics:** The ISCR and DSCR stood comfortable at 1.69x & 1.29x respectively in FY19 as compared to 1.49x & 1.82x respectively in FY18, indicating the adequacy of the company to service its debt obligations.
- **Moderate liquidity :** The current ratio stood improved at 1.49x in FY19 as compared to 1.31x in FY18.

Credit Risks:

- **Modest Net Worth :** Low owner's capital with the TNW standing at Rs 5.55 Cr in FY19 as compared to Rs 5.18 cr in FY18. The increase in the net worth has been on account of the retention of profits and there has been no addition in the share capital during the year.
- **Modest Scale of Operations and the impact of COVID 19:** The scale of operations has remained modest in FY19 at Rs 50.96cr as against Rs 54.59cr in FY18. However, due to the ongoing COVID 19 Pandemic, the business is impacted in the Q4 FY20 and the sales recorded for the FY19-20 is approximately Rs 40cr (Prov). Further, due to the limited business operations on account of the COVID 19 pandemic and subsequent lockdown, the sales are likely to be impacted in Q1 FY 21.
- **Thin Profitability:** The profit margins of the company are low. The OPM and NPM stood at 2.59% and 0.72% respectively in FY19 as compared to 2.39% and 0.71% in Fy18.
- **Highly fragmented and Competitive industry :** With the presence of a large number of established as well as unorganised players, the firm faces stiff competition from cheaper varieties of imported edible oils. Along with this, the vulnerability of demand and profitability to movements in global edible oil prices and changes in duty structure can impact the competitiveness of various oils.
- **Inherent Industry risk and impact of agro-climatic conditions:** The industry is highly dependent on timely availability of raw material, domestic production of oil seeds, annual rainfall, global price fluctuations, and consumer preferences. Thus any adversities could impact the volume and the profitability for the company



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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 SENSITIVITIES

The ability of the company to accelerate its scale of operations, increase its profit margins, efficiently manage its working capital and cash flows for timely servicing of interest/debt obligations and strengthening of overall financial risk profile shall be the key rating sensitivities.

Positive: The ratings may be upgraded in case the revenue, profitability and capital structure of the company shows significant improvement.

Negative: The rating may be downgraded in case there is a significant deterioration in the business revenue and financial risk profile of the company.

LIQUIDITY POSITION

Adequate:

The liquidity profile of the company is adequately driven by a moderate current ratio of 1.49x in FY 19. The bank limits are utilized to the extent of 50% on average. The total cash and cash equivalents amount to Rs 0.18 cr in FY 19. The company has no liquid investments. The Net Cash Accruals are Rs 0.42 cr in FY19 with no CPLTD.

COMPANY PROFILE

AOPL was incorporated in 1997 by Mr. Rajendra Goyal and Mr. Vipin Goyal and primarily manufactures mustard oil and mustard cake. The company has an installed capacity of 5400 MT per annum for edible oil and 10,000 MT per annum for mustard cake. The company's processing unit is located in Morena, Madhya Pradesh. AOPL also trades in blended oil like rice bran oil, and other edible oils. The company caters to the market in Chhattisgarh, Bihar, Madhya Pradesh, Maharashtra, Assam and other north-eastern regions of the country. The company sells its products under its brand names Agri Drop and Active Heart. The company has also launched a new brand name "Kala Ghoda". This brand is purely mustard oil.



KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	2019	2018
Result Type		Audited	Audited
Operating Revenue	₹ Cr	50.96	54.59
EBITDA	₹ Cr	1.32	1.31
PAT	₹ Cr	0.37	0.39
Tangible Net worth	₹ Cr	5.55	5.18
Total Debt/Tangible Net worth	Times	1.22	1.61
Current Ratio	Times	1.49	1.31

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: India Ratings has placed the rating of the bank loan facilities of the company under Issuer Non Co-operating category on 05.02.2018. Current Outstanding rating is IND BB- (INC)

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument /Facility	Current Rating			Rating History		
	Tenure	Amt (₹ Crs)	Rating	2019	2018	2017
Fund Based Cash Credit	Long Term	7.50	BWR BB- Stable (Reaffirmed)	BWR BB- Stable (Reaffirmed)	BWR BB- Stable	Not Rated
ODBD- Sub limit of CC		(4.50)				
Total		7.50	INR Seven Crores and Fifty Lakhs Only			



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor and Media Relations
<p>Srishti Kaushik Ratings Analyst B :+91 202267456 Ext :673 srishti.k@brickworkratings.com</p> <p>Sushil Kumar Chitkara Associate Director - Ratings B :+91 22 2831 1426, +91 22 2831 1439 sushilkumar.c@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

Awadh Oils Pvt Ltd Annexure I

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	Central Bank of India	Cash Credit	7.50	-	7.50
2		ODBD- Sublimit of CC	(4.50)	-	(4.50)
	Total	INR Seven Crores and Fifty Lakhs only			7.50



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