Rating Rationale

Sohan Lal Aggarwal & Sons

8 Aug 2017

Brickwork Ratings assigns ratings for the Bank Loan facilities aggregating Rs. 6.75 Crores of Sohan Lal Aggarwal & Sons.

Particulars:

Facility	Rated Amount (In Crs)	Tenure	Rating Recommended
Fund Based – Cash Credit	6.75	Long Term	BWR B+ (Pronounced as Single B Plus) Outlook : Stable
Sub Limit – Packing Credit/ FOBP/ FOBN-LC/ FABC/ FAUBC	(2.00)	Short Term	BWR A4 (Pronounced Single A Four)
Total	6.75	Rupees Six Crores Seventy Five Lacs Only	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY16, provisional of FY17 and projections for FY18, publicly available information and information/ clarifications provided by the company.

Key Rating Drivers

Credit Strengths

- **Experienced partners** – The partners of firm has been involved in the business of rice milling and processing for more than 15 years and have gained thorough knowledge of the market.
- **Adequate Current Ratio** - Firm has been able to maintain adequate current ratio of 1.39 times in FY 16 which indicates firm is well-positioned to cover its current or short term liabilities.

Credit Weakness

- **Working Capital Intensive operations** – The firm is required to hold high inventory for seasoning to attain better quality. During the year FY 16, inventory holding period was of 155 days. Due to high inventory level, working capital requirement is also on higher side leading to higher interest cost.
- **Intensely competitive nature of the industry characterized by a number of small players** - The rice industry is highly competitive and characterized by the presence of a large number of players in the unorganized segment. Sohan lal Aggarwal &

Sons is a moderate sized player, relative to the size of the industry. Moreover, the industry is high fragmented, given the low entry barriers and relatively low technical and capital intensity; which limit the pricing flexibility of the participants.

- **Weak financial profile characterized by high gearing, fluctuating profitability and weak coverage indicators** - The operating margins of the company have remained low and fluctuating on account of low value added nature of the business and high competition in the industry. Further, highly leveraged capital structure due to funding of working capital requirements through bank borrowings, along with high interest expense has led to weak debt coverage indicators.
- **Agro climatic risks, which can affect the availability of the paddy in adverse weather conditions** - Rice being an agricultural commodity is exposed to vagaries of monsoon and other agricultural risks such as outbreak of diseases, lower/higher-than-projected production levels (which impact the supply and hence the price), poor storage capacities and inconsistencies in quality. The company's ability to buy paddy of consistent quality at right price is the key to success in the basmati rice industry.

Rating Outlook: Stable

BWR believes the Sohan Lal Aggarwal & Sons'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 there is a sustained improvement in the revenues and profits of the company. The rating outlook may be revised to 'Negative' if the revenues and profits reduce due to non implementation of the same.

About the Company

Sohan Lal Aggarwal & Sons was incorporated on 30.04.1994 as a partnership firm by Mr. Suresh Chand and Mr. Sunil Garg. Firm is engaged in the milling and processing of basmati rice and non- basmati rice. The firm caters domestic customers and major customers from Northern part of India. The trading is carried out from Shop No. 6, Nai mandi novelty road, Karnal and the processing unit situated at Village Daha, Karnal.

Company Financial Performance

Key Parameters		FY15 (Audited)	FY16 (Audited)
Operating Income	Cr	21.15	24.48
EBITDA	Cr	0.99	1.02
PAT	Cr	0.06	0.07
Partner's Capital	Cr	0.96	1.03
D:E(TOL/TNW)	times	8.93	8.19
Current Ratio	times	1.70	1.39

Status of non-cooperation with previous CRA: SMERA has suspended the company's rating vide its press release dated July 11th, 2017 on account of non-cooperation by the client in providing the required information to complete the review process.

Facility		Rating Assigned (2017)		Rating History		
	Tenure	Previous Amount (Rs. Crs)	Rating	2016	2015	2014
Fund Based: Cash Credit	Long Term	6.75	BWR B+ (Pronounced as Single B Plus) Outlook : Stable	NA	NA	NA
Sub Limit – Packing Credit/ FOBP/ FABC/ FAUBC	Short Term	(2.00).	BWR A4 (Pronounced as Single A Four)	NA	NA	NA
Total		**6.75**	**INR Six Crores and Seventy Five Lacs only**			

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

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing**
- **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 Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA& the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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