RATING RATIONALE

Ajay Agro Industries **22 May 2020**

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹ 13.85 Crores (enhanced from Rs 8.50 Crs to Rs 13.85 Crs) of Ajay Agro Industries.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2019)	Present
Fund based Cash Credit	6.50	6.00	Long Term	BWR B+ Stable (Reaffirmed)	BWR B+ Stable (Reaffirmed)
Term Loan	2.00	1.35			
WHR	-	6.50			
Total	8.50	13.85	INR Thirteen Crores and Eighty Five Lakhs Only		

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

RATING ACTION/OUTLOOK :

BWR reaffirms the ratings of Ajay Agro Industries (“AAI” or “The Entity”) bank loan facilities of Rs 13.85 Crs (enhanced from Rs 8.50crs) based on the extensive business experience of the proprietor, locational advantage enjoyed by the entity and moderate debt service indicators. However, the rating is constrained by the modest financial risk profile, modest scale of operations and thin portability margins, and the risk of capital withdrawal for any contingency due to the proprietorship constitution.

BWR believes that Ajay Agro Industries business risk profile will be maintained over the medium term. BWR has essentially relied upon the audited financial statements of Ajay Agro Industries up to FY 19, 10 months Provisional financials for FY20, projected financials for FY20 and FY21, publicly available information and information/clarifications provided by the entity’s management.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of the proprietor.** The proprietor has been associated with the same industry for over two decades and possesses a wide experience in the cotton ginning business.
- **Locational Advantage:** The firm’s manufacturing facility is located in Madhya Pradesh which is one of the major cotton producing regions in India. Thus proximity to cotton producing regions

ensures continuous supply of the same at competitive prices.

- **Moderate Debt Protection Metrics**: The DSCR and ISCR in the firm stood moderate at 1.44x and 1.63x in FY 19 as against 1.06x and 1.42x in FY18. The DSCR and ISCR is estimated to stay at the same level for FY20.

Credit Risks:

- **Modest scale of operations and weak profitability**: The scale of operations in FY 19 have improved significantly by 70 % to Rs 77.47crs as against Rs. 45.09 crs in FY18. However, for FY 19-20 (Prov), sales of approximately Rs 67 crores has been achieved. The profit margins viz OPM and NPM stood low at 2.83% and 0.87% respectively in FY19. It is estimated to stay at the same level in FY20.
- **Modest Financial Risk Profile**: The financial risk profile of the firm is modest driven by a low TNW and high gearing ratio. TNW has marginally increased to Rs 1.55 Cr in FY19 as compared to Rs 1.42 Cr in FY18. Considering the USL in FY19, the TNW (A) stood at Rs 1.89 cr in FY19. However, the same is projected to improve in FY20, on account of increase in USL. The TNW (A) for 10M FY19-20 (Prov) stood at Rs 3.92cr. The Debt/Equity ratio stood high in FY19 at 9.02x and the TOL/TNW stood at 9.47x. However, the same is projected to improve in FY 20 as per the 10M FY20 Provisionals on account of repayment of the loans. The Debt/Equity and TOL/TNW is projected at 7.36x and 4.75x respectively.
- **Proprietorship Constitution**: Withdrawal of the capital by the proprietor for any contingency would adversely affect the capital structure of the firm.

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 entity 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 entity 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 entity.

LIQUIDITY POSITION

Stretched:
The liquidity profile of the entity is stretched driven by a low current ratio of 1.05x in FY 19. However, the same is estimated to improve in FY 20 to 1.33x (Proj,) The total cash and cash equivalents amount to Rs 0.19 cr in FY 19. The company has no liquid investments. The Net Cash Accruals are Rs 1.07 cr in FY19 with a CPLTD of Rs 0.33crs and are estimated to stay in the same line for FY20.

COMPANY PROFILE

M/s Ajay Agro Industries (AAI) is a proprietary concern started in 2010 having cotton seed oil Mill at Khandwa, MP. Mr Sanjay Agarwal is the proprietor of Ajay Agro Industries. The concern was initially an oil mill which had been started during the FY 2010-11 by the installation of five oil expellers, afterwards installing additional five oil expellers in 2014-15. Later, the concern started a fully automated cotton ginning factory, the commercial operations of which started in December 2017. Cotton seeds are the finished product of the ginning factory and a raw material for cotton seed oil mill.The manufacturing facility runs in two shifts and being in the seasonal industry, it operates for 7-8 months in a year.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	2019	2018
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	77.47	45.09
EBITDA	₹ Cr	2.19	1.08
PAT	₹ Cr	0.68	0.35
Tangible Net worth	₹ Cr	1.55	1.42
Total Debt/Tangible Net worth	Times	9.02	12.76
Current Ratio	Times	1.05	2.91

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil

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	6.00	BWR B+ Stable (Reaffirmed)	BWR B+ Stable (Reaffirmed)	BWR B+ Stable	Not Rated
Term Loan		1.35				
WHR		6.50				
Total		**13.85**	**INR Thirteen Crores and Eighty Five Lakhs Only**			

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies

For any other criteria obtain hyperlinks from website

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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	6.00	-	6.00
2		Term Loan	1.35	-	1.35
3		WHR	6.50	-	6.50
	Total	**INR Thirteen Crores and Eighty Five Lakhs only**			**13.85**

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