

## Rating Report

### Brickwork Ratings revises ratings to 'BWR BB & A4' for the Bank Loan facilities aggregating to Rs 350.92 Crs of Agarwal Industries Pvt Ltd (enhanced from Rs 274.92 Crs)

On a review, Brickwork Ratings (BWR) has revised the **Ratings<sup>1</sup>** for the enhanced Bank Loan facilities of **Agarwal Industries Pvt Ltd** ("AIPL" or "the Company") as follows:

| Facilities                                | Previous limits (Rs Crs) | Present limits (Rs Crs) | Rating History (Nov 2014)   | Rating [July 2016]  |
|---|--------------------------|-------------------------|---|---|
| Fund based:<br>Cash Credit<br>SLC         | 19.00<br>4.92            | 71.00<br>4.92           | BWR BBB-<br>(Outlook: Stable)                                       | BWR BB+<br>[Pronounced<br>BWR Double B Plus]<br>(Outlook: Stable)<br>[Downgraded] |
| Non Fund based:<br>Letter of credit<br>BG | 221.00<br>30.00          | 245.00<br>30.00         | BWR A3  | BWR A4+<br>(Pronounced BWR A<br>Four Plus)<br>[Downgraded]                        |
| <b>Total</b>                              | <b>274.92</b>            | <b>350.92</b>           | <b>INR Three Hundred and Fifty Crores and Ninety Two Lakhs Only</b> |   |

*Annexure I shows details of bank loan facilities*

BWR has principally relied upon the audited financial results upto FY15, provisional financials of FY16, projected financials of Agarwal Industries Pvt Ltd of FY17, publicly available information and clarifications as provided by the Company's management.

The revision of rating factors the stressed liquidity position of the Company during the current financial year owing to stretched receivables, high overall gearing levels, weakening profitability, below average debt protection metrics and exposure to agro-climatic risks and volatility in crude oil prices. The ratings, however, continue to draw strength from the established track record of business operations, and diversified product portfolio of the Company.

### Background

Hyderabad based AIPL, incorporated in 1980, is primarily engaged in the manufacturing of edible oil. Presently, AIPL is owned and managed by Agarwal Group of Industries (founded in 1950) with diversified business interests in edible oil production, sponge iron and transmission of towers.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

AIPL's edible oil refinery is strategically located at Kakinada port (A.P) with an installed capacity of 500 TPD. AIPL sells edible oil such as palm oil, sunflower oil, bakery shortening, fats and vanaspati under the flagship brand "Gold Mohar" in A.P. and in other southern states. Nearly 80% of its raw material requirements are met out of imports backed by LC. AIPL's manufacturing facility is located near Kakinada port and a dedicated pipe line is connected to its factory from port for smooth supply of crude oil. The Company has also established a wide network of more than 5,000 distributors through which it sells its products mainly in Southern parts of the country.

### **Management Profile**

Mr. Anirudh P. Agarwal is the Chairman of AIPL. He has over four decades of experience in edible oil business. Mr. Satish K. Agarwal, Mr Muralilal Agarwal and Mr. Naresh Gupta are the other Directors. All the Directors are qualified professionals.

### **Financial Performance**

Net sales improved to Rs 935.09 Crs in FY15 from Rs 841.40 Crs in FY14. Profit after tax improved to Rs 1.43 Crs in FY15 from Rs 1.17 Crs in FY14. Company's PAT and operating margins are thin at 0.09% and 2.01% respectively in FY16. Tangible net worth stood at Rs 73.77 Crs as on March 31, 2016. O/S debt was Rs 214.37 Crs as of March 31, 2016. TOL/TNW was also high at 3.72 times in FY16. ISCR and DSCR were low at 1.18 times and 1.16 times in FY16. ROCE was low at 6.94% due to low profits.

The Company is facing difficulties in debtors realisation during 2016-17. This has resulted in strained liquidity position. On a provisional basis, the Company has reported net sales of Rs 1025.34 Crs for FY16.

### **Credit risk**

#### **Very high receivable days in current FY**

The Company's operating cycle was at 63 days in FY15 owing to high receivable days. Company's receivables were very high at Rs 208.56 Crs in FY16. As informed by the management of the Company, Company is facing difficulties in recovery from their debtors during 2016-17, which has resulted in stretched receivables days. Thus, the Company's liquidity position has been stressed during current financial year.

### **High gearing levels**

Total Debt/TNW stood at 2.91 times as on March 31, 2016 (Provisional). The Company is highly leveraged as also seen in TOL/TNW of 3.72 times as on March 31, 2016 (Provisional).

### **Weak profitability**

PAT and operating margins stood at 0.15% and 2.17% respectively in FY15. Company's PAT and operating margins are very thin.

### **Below average ROCE and debt coverage indicators**

Company's debt protection metrics were below average during FY16. ISCR and DSCR were low at 1.18 times and 1.16 times in FY16. ROCE was low at 6.94% due to low profits.

### **Volatility in raw material prices & Foreign Exchange fluctuations**

The Company is exposed to agro-climatic risks in procurement of raw materials along with volatility in crude oil prices and risk of foreign exchange fluctuations.

### **Rating Outlook**

The rating outlook is expected to be stable over the current year. Going forward, the ability of AIPL to increase its profitability while managing volatility in the agro-based raw material prices, improve its liquidity, strengthen capital structure by way of infusion of share capital and ensure overall improvement in the financial risk profile are the key rating sensitivities. Any further decline in its PAT & EBITDA margins from the current levels, larger than anticipated working capital requirements and any debt led capital expenditure would be negative from rating perspective.

|  |  |
|--|--|
| <b>Analyst Contact</b>   | <b>Relationship Contact</b>  |
| <a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a> | <a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>       |
| <b>Phone</b>   | <b>Media Contact</b>   |
| <b>1-860-425-2742</b>  | <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a> |

**Disclaimer:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.

**Agarwal Industries Pvt Ltd**

**Annexure I: Details of the Bank Loan facilities rated**

| <b>Limits</b>                 | <b>Allahabad Bank</b> | <b>State Bank of India</b> | <b>Indian Bank</b> | <b>Lakshmi Vilas bank</b> | <b>Total</b>  |
|-------------------------------|-----------------------|----------------------------|--------------------|---------------------------|---------------|
| <b>Fund based:</b>            |                       |                            |                    |                           |               |
| Cash Credit                   | 50.00                 | 15.00                      | 1.00               | 5.00                      | 71.00         |
| SLC                           | -                     | 4.92                       | -                  | -                         | 4.92          |
| <b>Total Fund based</b>       | <b>50.00</b>          | <b>19.42</b>               | <b>1.00</b>        | <b>5.00</b>               | <b>75.92</b>  |
| <b>Non Fund based:</b>        |                       |                            |                    |                           |               |
| Letter of Credit              | 135.00                | 25.00                      | 25.00              | 60.00                     | 245.00        |
| Bank Guarantee                | -                     | -                          | -                  | 30.00                     | 30.00         |
| <b>Total Non- Fund based</b>  | <b>135.00</b>         | <b>25.00</b>               | <b>25.00</b>       | <b>90.00</b>              | <b>275.00</b> |
| <b>Total Facilities rated</b> | <b>185.00</b>         | <b>44.92</b>               | <b>25.00</b>       | <b>90.00</b>              | <b>350.92</b> |

**Agarwal Industries Pvt Ltd**

**Annexure II**

**Profit & Loss (Rs Crs)**

| <b>Particulars</b>                              | <b>31-Mar-2013</b> | <b>31-Mar-2014</b> | <b>31-Mar-2015</b> |
|---|--------------------|--------------------|--------------------|
| <b>Result Type</b>                              | <b>Audited</b>     | <b>Audited</b>     | <b>Audited</b>     |
| Net Sales                                       | 898.30             | 841.40             | 935.09             |
| Other Operating Income                          | 28.07              | 26.31              | 10.42              |
| Total Operating Income                          | 926.37             | 867.71             | 945.51             |
| Operating Expenses                              | 885.97             | 839.89             | 924.97             |
| OPBDIT  | 40.39              | 27.82              | 20.54              |
| Depreciation/Amortization/Impairment            | 1.99               | 2.19               | 1.50               |
| OPBIT   | 38.40              | 25.63              | 19.04              |
| Interest and Finance Charges                    | 33.18              | 24.90              | 16.90              |
| OPBT  | 5.22               | 0.73               | 2.14               |
| Non-Operating Income(Expenses)                  | 0.63               | 0.57               | 0.45               |
| PBT   | 5.84               | 1.30               | 2.59               |
| Extraordinary/Prior Period -<br>Income(Expense) | 0.03               | 0.02               | -0.01              |
| Provision for Taxes                             | 1.17               | 0.15               | 1.15               |
| PAT   | 4.71               | 1.17               | 1.43               |

**Agarwal Industries Pvt Ltd**

**Annexure III**

**Balance Sheet (Rs Crs)**

| <b>Particulars</b>                | <b>31-Mar-2013</b> | <b>31-Mar-2014</b> | <b>31-Mar-2015</b> |
|-----------------------------------|--------------------|--------------------|--------------------|
| <b>Result Type</b>                | <b>Audited</b>     | <b>Audited</b>     | <b>Audited</b>     |
| <b>EQUITY AND RESERVES</b>        | 89.28              | 90.45              | 109.85             |
| Share capital                     | 9.10               | 9.10               | 9.48               |
| Reserves and Surplus              | 50.95              | 52.13              | 61.74              |
| Revaluation Reserve               | 29.22              | 29.22              | 38.63              |
| Non-current liabilities           | 17.77              | 16.77              | 29.71              |
| Long-Term Borrowings              | 14.68              | 13.79              | 25.68              |
| Deferred tax Liabilities (Net)    | 3.09               | 2.98               | 4.03               |
| Current liabilities               | 260.66             | 191.67             | 255.06             |
| Short-Term Borrowings             | 192.60             | 138.67             | 228.41             |
| Current Portion Of Long Term Debt | 2.59               | 2.32               | 0.05               |
| Trade Payables                    | 44.90              | 45.27              | 21.51              |
| Other Current Liabilities         | 16.55              | 4.78               | 4.70               |
| Short-Term Provisions             | 4.02               | 0.64               | 0.38               |
| <b>Total Liabilities</b>          | <b>367.70</b>      | <b>298.89</b>      | <b>394.61</b>      |
| <b>ASSETS</b>                     |                    |                    |                    |
| Non-current assets                | 57.70              | 55.80              | 76.77              |
| Net Fixed assets                  | 56.04              | 54.14              | 74.96              |
| Capital Work-In-Progress          | 0.00               | 0.00               | 0.15               |
| Non-Current Investments           | 1.66               | 1.66               | 1.66               |
| Current assets                    | 310.00             | 243.10             | 317.84             |
| Inventories                       | 28.98              | 34.35              | 24.91              |
| Trade Receivables > Six Months    | 4.74               | 3.75               | 3.65               |
| Trade Receivables < Six Months    | 101.73             | 135.66             | 170.23             |
| Cash and Cash Equivalents         | 155.46             | 28.37              | 55.97              |
| Short-Term Loans and Advances     | 19.10              | 40.97              | 63.07              |
| <b>Total Assets</b>               | <b>367.70</b>      | <b>298.89</b>      | <b>394.61</b>      |

**Agarwal Industries Pvt Ltd**

**Annexure IV**

**Key Ratios**

| <b>Particulars</b>                         | <b>31-Mar-2013</b> | <b>31-Mar-2014</b> | <b>31-Mar-2015</b> |
|--|--------------------|--------------------|--------------------|
| <b>Result Type</b>                         | <b>Audited</b>     | <b>Audited</b>     | <b>Audited</b>     |
| Long Term Borrowings (Rs Crs)              | 14.68              | 13.79              | 25.68              |
| Short Term Borrowings (Rs Crs)             | 192.60             | 138.67             | 228.41             |
| Current Portion Of Long Term Debt (Rs Crs) | 2.59               | 2.32               | 0.05               |
| Total Debt (Rs Crs)                        | 209.87             | 154.78             | 254.14             |
| Tangible Net Worth (Rs Crs)                | 60.05              | 61.23              | 71.22              |
| Capital Employed (Rs Crs)                  | 273.01             | 218.98             | 329.39             |
| Total Debt/TNW (Times)                     | 3.49               | 2.53               | 3.57               |
| Long Term Debt/TNW (Times)                 | 0.24               | 0.23               | 0.36               |
| TOL/TNW (Times)                            | 4.64               | 3.40               | 4.00               |
| ISCR (Times)                               | 1.22               | 1.12               | 1.22               |
| DSCR (Times)                               | 1.05               | 1.03               | 1.03               |
| Net Cash Accruals/Total Debt (Times)       | 0.03               | 0.02               | 0.02               |
| Net Cash Accruals/Long Term Debt (Times)   | 0.42               | 0.24               | 0.16               |
| Net Profit Margin (%)                      | 0.51               | 0.14               | 0.15               |
| Operating Profit Margin (%)                | 4.36               | 3.21               | 2.17               |
| ROCE (%)                                   | 14.80              | 10.42              | 6.94               |
| Current Ratio (Times)                      | 1.19               | 1.27               | 1.25               |
| Days Receivables (Days)                    | 37                 | 53                 | 61                 |
| Days Inventory (Days)                      | 16                 | 14                 | 12                 |
| Days Payable (Days)                        | 25                 | 15                 | 10                 |
| Conversion Cycle (Days)                    | 28                 | 52                 | 63                 |

**\*Ratios as per BWR calculations**