

Rating Rationale

Brickwork Ratings assigns ‘BWR B’ Rating to ₹ 10.12 Crores (INR Ten Crores and Twelve Lakhs only) long-term Bank Facilities and ‘BWR A4’ Rating to ₹ 1.02 Crore (INR One Crore and Two Lakhs only) short-term Bank Facilities of Agron India Ltd.

BLR Issue Rating- Long Term: BWR B

Outlook : Stable

BLR Issue Rating-Short term: BWR A4

Brickwork Ratings (BWR) has assigned the Rating¹ of BWR B (Pronounced BWR B) with a stable outlook to Rs 10.12 crore (INR Ten crore and twelve lakhs only) long term bank facilities of Agron India Ltd (AIL).

Brickwork Ratings (BWR) has also assigned the Rating¹ of BWR A4 (Pronounced BWR A Four) to Rs 1.02 Crores (INR One crore and two lakhs only) short term bank facilities of Agron India Ltd (AIL).

The rating, inter alia, factors the promoter’s experience in the industry and diversified product portfolio across the pharmaceutical, therapeutic and healthcare and energy segments.

The rating is constrained by small size of operations (as reflected by low turnover), low tangible net worth and thin profit margins of the company. The rating also reflects the operational risk associated with supplier concentration, absence of long term contracts and an un-hedged exposure to forex fluctuation.

Background

Agron India Ltd (AIL) is a closely held limited company incorporated in the year 2004. The company promoted and managed by Mr. Sadanand Pandey is engaged in bulk trading. The trading profile of the company has been limited to commodities across pharmaceutical, therapeutic, healthcare, cosmetics and coal segment in the domestic and foreign markets since FY11. The company was earlier also trading industrial raw materials and other commodities, activities in this line have since been reduced considerably. In addition to trading, the company is also engaged in branding of various pharmaceutical and therapeutic products which are sold both in domestic and foreign markets under the brand name Naturon.

The company had also invested in a mini re-refinery and crude distillation plant in the state of Maharashtra in the FY 2010 and is planning to enter lubricant and petrochemical business in domestic and overseas market.

¹ Please refer to BWR website www.brickworkratings.com for definition of the ratings assigned

Credit Risk Assessment

Industry experience of the promoter

Mr. Sadanand Pandey is the promoter and managing director of the company. He brings over a decade's experience in the trading industry which has enabled the promoter to build up a long standing customer and supplier base.

Operating Performance- growing margins albeit declining topline, moderately diverse trading folio

AIL's operating income has grown at a CAGR of 6.94% in the past three years ending with FY12. The company registered an operating profit of Rs. 3.46 crore and a net profit of Rs. 1.49 crore on total revenues of Rs. 32.56 crore in FY12.

Exports constituted around 39.09% of the company's trading revenues. Pharmaceutical products were the major revenue generator, contributing 66.80% to the trading income folio in FY12. The remaining portion of the trading revenue came from nutraceutical products (16.14%) and cosmetics (16.89%).

The company also started trading in Coal in FY12 which contributed 0.17% to the trading income. In FY11 a significant portion (64.55%) of the company's trading income came from granite, marble and steel products. However the company has now exited from trading in these products owing to several concerns in these sectors particularly relating to receivables. The company has decided to specialize in trading of pharmaceutical, therapeutic and healthcare products, cosmetics and coal.

AIL's total revenue in FY12 slipped by 42.36% to Rs. 32.56 crore on account of a change in business model where the company exited from trading in granite, marble and steel products. Despite the fall in revenues and increase in the average cost of funds to 15.57% in FY12, the company's operating margin and PAT margin showed a significant jump to 10.79% and 4.66% respectively attributable to the falling cost of materials particularly pertaining to the pharma, therapeutic and healthcare products. Additionally with the falling revenues the company also reduced its workforce which was reflected in the reduced employee costs for the period.

For a period of 10 months (Apr 12 – Jan 13) the company had registered total revenues of Rs. 26.70 crore of which exports constituted close to 42.88%.

Small Net worth and moderate capital structure

The total net worth of the company in FY12 stood at Rs. 4.99 crore. The moderate increase visible in the company's net worth was attributable to the profit accruals for the period. There was no infusion of equity in the past three years. The total borrowings of the company were Rs. 10.69 crore including term loans of Rs. 2.47 crore, working capital borrowings of Rs. 8.03 crore and interest bearing loans from promoters and associate companies of Rs. 19 lakhs. The overall gearing of the company was moderately high at 2.14x albeit lower than 2.91x in FY 11 predominantly attributable to the repayment of unsecured loans amounting to Rs. 35 lakhs in FY 12. The small net worth size of the company and the modest scale of operations constrains the revenue expansion capacity of the company. However considering that pharmaceutical products form a significant

portion of the trading folio we can partly take comfort in the healthy growth prospects of the pharma industry in India which is expected to grow at a CAGR of 15% by 2015 (as per the McKinsey Report).

Liquidity profile

The liquidity profile of AIL was stretched marked by low current ratio, stretched cash conversion cycle and high level of working capital borrowings. AIL is in a working capital intensive nature of business. As such the company requires high working capital limits to maintain the sufficient inventory levels and ensure uninterrupted operations. Despite the fall in revenues in FY12 the working capital borrowings of the company increased by 9.42% owing to the higher inventory level and extended collection period owing to the delayed payments from debtors.

The company's cash conversion cycle in FY12 was 48 days, much higher from 11 days in FY11. The credit period availed by the company for the period was 166 days. The average utilization of the working capital funds has been greater than 100% during the past 21 months (Apr 11- Dec 12).

Exposure to the forex, supplier concentration and revenue flow risk associated with the company's investment in oil re-refinery.

AIL earns a significant portion of revenues from exports. This exposes the company to forex risk which is currently un-hedged. The company does not enter into any long term contracts with the suppliers as such it has to bear the fluctuations in the material costs. As per the information provided by the company around 60-70% of the price fluctuations are borne by AIL. Additionally in FY12 around 14.67% of the trading revenue came from a single customer, Naturon Healthcare Ltd (NHL) which is one of the associate companies of Agron India Ltd. Furthermore NHL supplies close to 40% of the company's products for trading resulting in supplier concentration risk.

AIL had also invested Rs. 53.20 lakhs in Gatrod Agro Bio-fuels Pvt Ltd, an oil re-refinery with a license to operate until March 2014. Through this investment the company wanted to venture into the business of manufacturing lubes and oils. However the plant is not operative as yet and so the company is exposed to risk associated with the revenue flow from this investment. The financial risk profile of the company may be impacted if these investments do not yield envisaged returns in the medium term.

Rating Outlook

Going forward substantial improvement in the net worth, profit margins and efficient working capital management would be the key rating sensitivities. Additionally the company's prospects will also depend on its ability to increase the size of operations and revenues considering that it has moved from a general trading model to a specialized trading model.

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Key Financials – Agron India Ltd

Annexure I: Abridged Balance Sheet (₹ Cr)

Year Ended	FY 2010	FY 2011	FY 2012
Liabilities	(Audited)	(Audited)	(Audited)
Share Capital	0.25	0.25	0.25
Reserves	2.86	3.26	4.75
Net worth	3.10	3.50	4.99
Secured Loan	4.77	9.67	10.49
Unsecured Loan	1.37	0.54	0.19
Total Borrowings	6.14	10.20	10.69
Current Liabilities without Cash Credit	14.91	14.16	17.12
Total Liabilities & provisions	24.16	27.86	32.80
Assets	(Audited)	(Audited)	(Audited)
Net Block	4.70	4.67	5.23
Investments	0.77	0.55	0.55
Deferred Tax asset	0.04	0.09	0.14
Current Assets	18.65	22.55	26.88
Total Assets	24.16	27.86	32.80

Annexure II: Abridged Income statement (₹ Cr)

Income Statement	FY 2010	FY 2011	FY 2012
	(Audited)	(Audited)	(Audited)
Net Sales (adj for other income)	26.21	56.31	32.05
Expenditure	26.17	54.63	28.59
Operating Profit	0.04	1.68	3.46
Depreciation	0.06	0.05	0.09
EBIT	-0.02	1.62	3.37
Other Income	0.37	0.18	0.51
Interest	0.00	1.07	1.66
PBT	0.35	0.73	2.21
Tax	0.23	0.33	0.72
PAT	0.13	0.40	1.49

Annexure III: Ratios

Key Ratios	FY 2010 (Audited)	FY 2011 (Audited)	FY 2012 (Audited)
D/E Ratio (x)	1.98	2.91	2.14
Interest Coverage (x)	NM	1.56	2.08
DSCR (x)	0.44	0.70	1.24
Tangible net worth (Rs crore)	3.10	3.50	4.99
Net Profit Margin	0.48%	0.71%	4.66%
ROCE(x)	0.00	0.12	0.21
Net Cash Accruals / Total Debt (x)	0.03	0.04	0.15
Current Ratio(x)	0.50	0.41	0.23