Rating Rationale

Brickwork Ratings assigns 'BWR BB+' & 'BWR A4+' for the 'Bank Credit Facilities amounting ₹ 20 Cr of Arora Aromatics Private Limited.

Brickwork Ratings (BWR) has assigned the following **Ratings**[1] for the Bank credit facilities of ₹ 20.00 Crore of Arora Aromatics Private Limited.

Facility	Limits (₹ Cr)	Tenure	*Rating*
Fund Based **CC**	**1.00**	**Long Term**	***BWR BB+*** *(BWR Double B Plus)* ***Outlook:Stable***
PC **FBP/Post Shipment Credit**	**11.00** **8.00**	**Short Term**	***BWR A4+*** *(BWR A Four Plus)*
Total	***20.00*** **(INR Twenty Crores only)**		

BWR has principally relied upon the audited financial results of Arora Aromatics up to FY 13 and projected financials of AAPL for FY14, publicly available information and information/clarification provided by the Company management.

The ratings draw support from the rich experience of the promoters, significant improvement in top-line growth in FY13, diversified product mix and benefit extended by the govt through various export incentives. The ratings are, however, constrained by volatility in input prices and low operating profit margins. However, the rating constraints are partially mitigated by company's competitive advantages gained through favorable plant location at Sambhul with proximity to raw material sources and improvement in capital structure on the back of equity infusion by the promoters.

Background

Arora Aromatics was a proprietary concern of Mr. Arvind K. Arora, which commenced its operation in 1976. It is one of the largest manufacturers for menthol crystals in India. In FY 14 the said entity took on a corporate structure by merging with Arora Aromatics Pvt ltd.-(AAPL) which was incorporated in Apr 2012 for this purpose. Arvind Arora holds almost all the equity of the company. AAPL is engaged in manufacturing menthol crystals, peppermint oil and other essential oils which find application in the pharmaceutical, food, tobacco, and cosmetic industries. Around 80-85 % of the company's revenue is contributed by exports. AAPL has its manufacturing unit at Sambhal, UP with annual installed capacity of 3000 Ton and operating in the range of 85-90% capacity. AAPL enjoys locational advantages in terms of easy availability of basic raw material i.e. Mentha

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Financial Performance

The operating income of Arora Aromatics has grown by CAGR of 40% for the last three years (figures for the previous 3 years are of the partnership firm). The company has posted YOY growth of 73% in revenue for FY13, which stood at ₹258.22 crores. The operating margins of the company are low, and have been in the range of 1% to 2% mainly on account of volatility in price of the raw material i.e. Mentha . In FY13 exports accounted for ~87% of total sales. The net profit margin of the Company improved to 1.25% in FY13 from 0.95% in FY12, partly on account of favourable exchange rates. The profit for FY13 stood at ₹3.24 crores against ₹1.43 crores in FY12. The capital structure has been reworked in the company, and overall Net Worth moved up significantly to Rs. 20.18 crores, in addition to Unsecured Loans from promoters to the extent of Rs. 15.25 crores. The company has no term debt, and avails only working capital borrowings. Thus, the gearing ratio is low, even if USLs are not classified as quasi-equity. Company's inventory, receivables and payables levels are optimal, and liquidity is comfortable. Utilisation of bank limits also was quite low.

Rating Outlook

The growth momentum noticed in last 2 years in the company needs to be sustained.Going forward strong demand for menthol and allied products will play a catalyst role in the growth of its top line. Increase in the scale of operations and maintaining healthy profit margins would be the key rating sensitivities.

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Annexure I - Key Financials – Arora Aromatics.

Particulars (₹ Cr)	2011	2012	2013
	A	A	A
Operating Income	94.78	149.59	258.22
EBITDA	1.50	1.93	4.57
PAT	0.90	1.43	3.24
Long term borrowings	0.01	1.01	15.25
Short term borrowings	6.12	9.91	4.60
Total Debt	6.13	10.91	19.85
Proprietor's Capital	6.58	7.66	20.18
Tangible Net worth (Rs. Cr)	6.58	7.66	5.18
Debt to Equity (x)	0.93	1.42	3.84
Interest Coverage (x)	4.05	2.54	4.33
EBITDA Margin (%)	2%	1%	2%
PAT Margin (%)	0.95%	0.95%	1.25%
Net Cash Accruals / Total Debt (x)	0.21	0.17	0.21
Current Ratio (x)	1.14	1.17	2.02

**Calculations has been based on BWR ratio definition*