Patel Agri Industries Pvt Ltd

November 04, 2020

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long term Bank Facilities	41.46	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed
	Total	**41.46 (Rs Forty One crore and Forty Six lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Patel Agri Industries Pvt Ltd. (PAIPL) continues to derive comfort from its adequate track record under moderately experienced promoters, proximity to paddy growing areas, steady growth in operations with improvement in profitability, moderate capital structure coupled with satisfactory debt protection metrics, prudent working capital management and favourable demand prospects for rice. These rating strengths are however, remain constrained by its exposure to agro-climatic risk, fragmented nature of the industry leading to thin profit margins and vulnerability to changes in Government policies.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with TOL/TNW to remain below 1x on a sustained basis

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 5x
- Deterioration in the capital structure
- Deterioration in working capital management affecting the liquidity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Moderately experienced promoters with adequate track record**

The company started commercial operation since 2015 and having over five years of operational track record. Mr. Dilip Kumar (Director) along with other four directors, is currently handling all the activities. All the promoters are involved in PAIPL since inception.

- **Proximity to paddy growing areas**

The primary raw material, paddy, is available in abundant quantity in Nalanda, Bihar. This results in easy availability of quality raw materials and savings in transportation costs.

- **Steady growth in operations with improvement in profitability**

PAIPL has grown its revenues at a CAGR of ~46% over FY18-FY20 with a y-o-y growth of ~10% in FY20 (Prov.). The sharp increase in revenues during last three years is a result of increase in capacity (from 16 tons per hour to 32 tons per hour) coupled with healthy demand and penetrating in new market and new customers base. Growth in operations resulted in rise in profitability of the company on the back of higher absorption of fixed costs. Consequently, profit levels and margins improved in FY20 (prov.). During H1FY20, the company earned a total operating income of ~Rs.192 crore.

- **Moderate capital structure coupled with satisfactory dent protection matrices**

PAIPL's capital structure remains moderately leveraged on account of the debt-funded capex undertaken in the past. However, the leverage ratios witnessed continuous improvement over the past three account closing date driven by accretion of profit to net with and scheduled repayment of term debts. The overall gearing ratio stood at of 1.60 times as on March 31, 2020 (Prov.). However, the debt profile of the company also comprises unsubordinated unsecured loan, among which, Rs.10.00 crore is from promoters, considering the same as a part of net-worth the overall gearing stood below unity at 0.94x as on March 31, 2020. With growth in its profit levels, gross cash accruals improved considerably from Rs.7.94 crore in FY19 to Rs.10.42 crore in FY20(Prov.). The debt coverage indicators, marked by interest coverage ratio was satisfactory at 5.09x times in fiscal FY20. TOL/TNW remained comfortable at 1.68x as on March 31,2020 (Prov.).

- **Prudent working capital management**

PAIPL has a satisfactory operating cycle of 20 days in FY20. The company managed its receivables cycle well which gets reflected in the average debtor days of around 3 in FY20. The company incentivizes early payment from its debtors by offering upfront cash discounts and penalizing late payments, which has helped in containing the debtor's days. Besides, the company follows an order backed strategy for inventory (during the harvesting and non-harvesting season), due to easy availability of paddy in the surrounding area.

- **Favourable demand prospects for rice**

The prospects of the industry are expected to remain good given that rice is the staple food for majority Indians and India is the world's second largest consumer or rice.

<u>Key Rating Weaknesses</u>

- **Exposure to agro-climatic risk**

Cultivation of paddy, the primary raw material, depends on monsoon and availability of irrigation. Hence, PAIPL is susceptible to any shortage or price fluctuation during unfavourable climatic conditions.

- **Fragmented nature of the industry leading to thin profit margins**

The rice-milling industry is characterised by intense competition due to limited value addition, and consequent low entry barriers, limiting the pricing flexibility of players like PAIPL. As a result, the profit margins remained thin with operating margin of 4.09% and net margin of 1.67% in FY20.

- **Vulnerability to changes in Government policies**

The rice industry is regulated in terms of paddy prices, export/import of rice, and the release mechanism. Thus, the company remains exposed to changes in Government policies in relation to stipulation of MSP for procurement of paddy from farmers and revision of policies on export, etc.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its comfortable gross cash accruals as against its repayment obligations, satisfactory operating cycle coupled with moderate average cash credit utilisation at ~84% during the past 12 months ended September, 2020. PAIPL has earned a gross cash accrual of Rs.10.42crore in FY20 (provisional) and the company is expected to earn gross cash accruals in the range of ~Rs.12-16 crore as against its debt repayment obligation of around Rs.3.12 crore during FY21-23.

About the Company

Incorporated in 2013, Patel Agri Industries Pvt Ltd (PAIPL) was promoted by Bihar based Mr. Dilip Kumar along with his brothers. The company started its commercial operations from August, 2015 and is engaged in the milling of paddy to produce raw and boiled rice. The rice mill is located in the Nalanda district of Bihar, with an installed milling capacity of 32 tons per hour.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	302.82	331.87
EBITDA	11.07	13.59
PAT	2.74	5.57
Total Debt	43.44	47.19
Tangible Net worth	22.59	29.52
EBITDA Margin (%)	3.66	4.09
PAT Margin (%)	0.90	1.67
Overall Gearing Ratio (x)	1.92	1.60

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: India Ratings has moved the rating to issuer non cooperating category vide its PR dated July 10, 2020 due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Term Loan	Long Term	11.46	IVR BBB-/ Stable	IVR BBB-/Stable (August 29, 2019)	-	-
2.	Fund Based Cash Credit	Long Term	30.00	Stable	IVR BBB-/Stable (August 29, 2019)	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan	-	-	Nov 2024	11.46	IVR BBB-/Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	30.00	IVR BBB-/Stable