Press Release

Aroma Agrotech Private Limited (AAPL)

January 25, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	10.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	207.48 (Decreased from Rs.208.47 crore)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**217.48 (Rupees Two Hundred Seventeen crore and Forty Eight lakh Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank loan facilities of AAPL reflects sustained improvement in revenue and stable EBITDA margins for FY23 along with comfortable debt protection metrics and capital structure. The ratings continue to derive strength from experienced promoters and long track record of operations and stable demand prospects for rice. The ratings however constrained by working capital intensive nature of operations, customer and geographical concentration risk, intense competition in the rice milling industry and vulnerability to foreign exchange and agro-climatic risks.

Key Rating Sensitivities:

Upward Factors

- Improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.
- Deterioration in capital structure.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Improved operating performance**

  AAPL's operating performance improved during FY23 with total operating income increased to Rs.926.31 crore an improvement of 20% over FY22 driven by improvement in average realisation of basmati rice and increase in sales of non-basmati rice. AAPL has achieved total operating income of Rs.732 crore in 9MFY24 and expected to achieve total operating income of around Rs.1009 crore by FY24 with export order book of Rs.296 crore as on January 11, 2024. EBITDA margin has remained stable and stood at 5.69% in FY23 as compared to 5.44% in FY22.

- **Comfortable debt protection metrics and capital structure**

  AAPL has able to maintain moderate capital structure with improvement in overall gearing and TOL/TNW to 1.37x and 1.62x respectively at the end of FY23 (FY22: 1.95x and 2.37x), due to lower utilization of working capital limits and also improvement in net worth due to retaining of profits; while debt protection metrics deteriorated due to increase in interest cost, however interest coverage ratio remained comfortable at 5.79x in FY23 (FY22: 7.44x) and total debt/GCA has improved to 6.38x in FY23 (FY22: 8.82x).

- **Long track record of operations with experienced promoters**

  AAPL has a long presence in the industry for around two decades and emerged as an established player in rice milling industry. The day-to-day activities of AAPL are managed by Mr. Anil Kumar Garg, Mr. Sushil Kumar Garg, Mr. Vinod Kumar Garg and Mr. Praveen Garg with vast industrial experience.

- **Stable demand prospects for rice**

The demand prospects for rice industry are expected to remain stable as rice is a staple food grain and India is the world's second largest producer and one of the top exporters in global rice trade. Rice is one of India's most important food crops, feeding the population of India, as well as a key generator of employment.

Key Rating Weaknesses

- **Working capital intensive nature of operations**

  The operations of the company remained working capital intensive marked by its elongated average inventory period. Typically, the company maintains inventory of around 100-120 days led by the seasonal availability of commodity and processing time required to attain the final product. Further, its purchases are on a shorter credit of 13 days against a credit of 0-90 days it generally extends to its customers. To support its high working capital requirements, the company depends on its working capital borrowings from the banks. The company's operating cycle improved to 138 days in FY23 (FY22: 149 days). The inventory days also improved and stood at 120 days in FY23 (FY22: 135 days). The collection days stood at 27 days in FY23 (FY22: 28 days). Creditor days stood at 9 days in FY23 (FY22: 13 days).

- **Customer and geographical concentration risk**

  AAPL derived around 51% of its total operating income from its top 5 customers in FY23 (P.Y.: 60%), resulting in high customer concentration risk. Further, around 83% of total export sales come from the Saudi Arabia and UAE, thus, exposing the company to high geographical concentration risks.

- **Intense competition in the rice milling industry**

  The rice milling industry is characterized by stiff competition amid presence of many organized and unorganized players. Low entry barriers coupled with low technological requirement and very less product differentiation makes the rice milling operations vulnerable to competition and limits the pricing flexibility of players in the industry.

- **Vulnerability to foreign exchange and agro-climatic risks**

  As exports account for a significant percentage of its turnover, the company remains exposed to foreign currency fluctuation risks. However, it has a hedging mechanism for reducing the impact of fluctuations in foreign exchange rates. Given its operations in the agricultural industry, AAPL is exposed to agro-climatic risks such as availability and quality of raw materials, which have a bearing on basmati rice prices.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Default Recognition]

[Criteria of assigning Rating outlook]

[Rating Methodology for Manufacturing Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity – Adequate

AAPL's liquidity is expected to remain adequate given the expected cash accruals in the range of Rs. 35.30 crore to Rs. 41.40 crore in the period of FY24 to FY26 as against the minimal repayments. The free cash and cash equivalents balance stood at Rs.0.80 crore as on March 31, 2023, while average working capital utilisation for the 12 months ended October 2023 remained moderate at ~67%. Current ratio stood at 1.45x as on March 31, 2023.

About the Company

AAPL was established in the year 2004 as a partnership firm under the name 'Aroma Agrotech'. Subsequently in the year 2009, the partnership firm was converted into private limited company and name was changed to AAPL. The company is engaged in processing, milling and exporting of basmati and non-basmati rice. AAPL is a family-owned company with Anil Kumar Garg, Praveen Garg, Sushil Kumar Garg and Vinod Kumar Garg as the directors in the company. The company majorly exports to Saudi Arabia and UAE, apart from a small proportion of domestic sales.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	774.32	926.31
EBITDA	42.09	52.70

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
PAT	21.17	26.53
Total Debt	234.71	201.06
Tangible Net worth	120.34	146.88
EBITDA Margin (%)	5.44	5.69
PAT Margin (%)	2.73	2.86
Overall Gearing Ratio (times)	1.95	1.37

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:

S. No	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (January 6, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	10.00	IVR BBB+/ Stable	IVR BBB+/ Stable	--	--
2.	FDB/FBE/ BRD/EPC	Short Term	165.00	IVR A2	IVR A2	--	--
3.	Standby Export Limit / Standby limit	Short Term	33.00	IVR A2	IVR A2	--	--
4.	Forward Contract Limit	Short Term	9.48	IVR A2	IVR A2	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	–	–	–	10.00	IVR BBB+/ Stable

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
FDB/FBE/BRD/EPC	–	–	–	165.00	IVR A2
Standby Export Limit / Standby limit	–	–	–	33.00	IVR A2
Forward Contract Limit	–	–	–	9.48	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-aroma-jan24.pdf
Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.