Press Release

Aroma Agrotech Private Limited

January 06, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	10.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	208.47	IVR A2 (IVR A Two)	Assigned	Simple
Total	**218.47 (Rupees Two Hundred Eighteen crore and Forty Seven lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Aroma Agrotech Private Limited (AAPL) derives strength from the experience of its promoters, location advantages and moderate growth in revenue. The rating strengths are, however, constrained by moderate capital structure, working capital intensive nature of operations, customer and geographical concentration risk, intense competition in the rice milling industry and susceptibility to agro-climatic risks and changes in the government regulations.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained improvement in operating income above 15% on a sustained basis
- Improvement in EBITDA margin above 8% and PAT margin above 4% on a sustained basis, leading to improvement in overall financial risk profile of the company
- Significant improvement in capital structure and debt protection parameters and liquidity position of the company.

Downward Factors

- Any decline in revenue and profitability leading to deterioration in debt protection metrics
- Deterioration in working capital cycle and liquidity profile of the company
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

AAPL was established in the year 2004 by Mr. Anil Kumar Garg, Mr. Sushil Kumar Garg, Mr. Vinod Kumar Garg and Mr. Parveen Garg. Since then, all four partners are actively involved in looking after the day-to-day business of the company. They hold a vast industry experience of 18 years. The promoters' experience has helped the company to maintain healthy and long-standing relations with the customers and suppliers.

Location advantages

AAPL's processing unit is located in Karnal, Haryana. The area is one of the hubs for paddy/rice, leading to its easy availability. The unit is also in proximity to the grain market resulting in procurement of paddy at competitive rates. The presence of AAPL in the paddy producing regions gives it an advantage over competitors operating elsewhere in terms of easy availability of the raw material as well as favourable pricing terms.

Moderate growth in revenue

AAPL's total operating income has marginally improved to Rs.742.34 crore in FY21 over Rs.737.04 crore in FY20, mainly on account of covid restrictions and decline in selling price of rice. In FY22 the company's total operating income has improved by around 4%, to Rs.772.27 crore mainly on account improvement in demand of rice post covid restrictions and improvement in prices of rice. The company has achieved total operating income of around Rs.440.42 crore in H1FY23 as compared to Rs.420.06 crore in H1FY22.

The EBITDA margin has marginally declined to 4.83% in FY21 from 5.04% in FY20, due to increase in raw material prices. However, it has marginally improved to 5.18% in FY22 over 4.83% in FY21, due to better average sales realisation. PAT margin has improved to 2.47% in FY21 over 1.84% in FY20, due to improvement in non operating income. Further, same has remained on the similar levels in FY22. GCA has improved from Rs.18.52 crore in FY20 to Rs.22.58 crore in FY21 to Rs.26.61 crore in FY22, mainly on account of improvement in profit.

Key Rating Weaknesses

Moderate capital structure

The capital structure of the company remained moderate as on the past three account closing dates mainly due to the working capital-intensive nature of AAPL's operations and high dependence on external borrowings to fund its working capital requirements. The overall gearing ratio was moderate at 1.95x as on March 31, 2022 against 1.68x as on March 31, 2021. TOL/TNW stood at 2.37x as on March 31, 2022 as against 2.22x as on March 31, 2021. The total debt/ GCA ratio deteriorated from 7.39x in FY21 to 8.82x in FY22, while the interest coverage ratio continued to remain moderate at 7.08x in FY22 as against 6.80x in FY21.

Working capital intensive nature of operations

The rice milling business being a working capital-intensive operation, requires large amount of working capital mainly during the harvesting season when prices of the paddy remain low and the company procures major raw material during these times. Suppliers generally have to be paid in advance by AAPL or extend a short credit period of upto 15 days to AAPL. Further, AAPL extends credit of around 3 months to its customers leading to high working capital intensity. The operations of the company are working capital intensive as reflected in its operating cycle of 149 days as in FY22 against 128 days in FY21. This is because of high inventory days of 135 days in FY22 against 118 days in FY21. The company has to maintain high level of inventory in view of seasonal nature of paddy.

Customer and geographic concentration risk

AAPL derived around 60% of its total net sales from its top 5 customers in FY22 against 65% of total sales in FY21, resulting in high customer concentration risk. Further, around 92% of total export sales come from the Saudi Arabia and UAE, thus, exposing the company to high geographical concentration risks. After receiving the export orders, the company hedges the order amount by booking of forward contracts to mitigate the loss due to currency fluctuations. The unhedged foreign currency exposure outstanding as of September 30, 2022 is Nil.

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.

Susceptibility to agro-climatic risks and changes in the Government regulations

The rice milling industry is susceptible to agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. Fluctuations in supply, in turn, exposes AAPL and other players to price volatility risks. Moreover, changes in the Government regulations pertaining to the rice industry can impact the industry dynamics.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook]

[Rating methodology for Manufacturing companies]

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

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient gross cash accruals expected to meet repayments and interest obligations during FY23-25. However, company's working capital is intensive nature as reflected in its operating cycle of 149 days as in FY22 against 128 days in FY21. This is because of high inventory days of 135 days in FY22 against 118 days in FY21. The company has to maintain high level of inventory in view of seasonal nature of paddy. The working capital requirement of the company is mainly funded through bank borrowings. Average working capital utilization during the 12 months ended August 2022 stood at around 69%. The company does not have any major capex plans during FY23-25.

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. APPL has milling capacity of 24 metric tonne per hour and sorting capacity of 36 metric tonne per hour at its processing unit in Karnal, Haryana. AAPL is a family-owned company with Anil Kumar Garg, Parveen Garg, Sushil Kumar Garg and Vinod Kumar Garg as the directors in the company.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	742.34	772.27
EBITDA	35.85	40.04
PAT	18.36	21.17
Total Debt	166.83	234.71
Tangible Net worth	99.17	120.34
Ratios		
EBITDA Margin (%)	4.83	5.18
PAT Margin (%)	2.47	2.73
Overall Gearing Ratio (x)	1.68	1.95

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	10.00	IVR BBB+/ Stable	-	-	-
2.	Packing Credit (PC) / Pre-shipment Credit in Foreign Currency (PCFC)	Short Term	165.00	IVR A2	-	-	-
3.	Standby Line of Credit	Short Term	33.00	IVR A2	-	-	-
4.	Forward Contract Limit	Short Term	10.47	IVR A2	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Nilesh Gupta Tel: (022) 62396023 Email: nilesh.gupta@infomerics.com	Name: Niriksha Gupta Tel: (022) 62396023 Email: niriksha.gupta@infomerics.com

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).

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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
Cash Credit	-	-	-	10.00	IVR BBB+/ Stable
Packing Credit (PC) / Pre-shipment Credit in Foreign Currency (PCFC)	-	-	-	165.00	IVR A2
Standby Line of Credit	-	-	-	33.00	IVR A2
Forward Contract Limit	-	-	-	10.47	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-Agrotech-jan23.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.