Press Release

Piccadily Agro Industries Limited

July 31, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	95.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	5.00	IVR A3+ (IVR A Three Plus)	Assigned
	Total	**100.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Piccadily Agro Industries Ltd (PAIL) draws comfort from its successful long track record under experienced promoters, diversified portfolio and proximity to sugar cane growing area and moderate recovery rate. The ratings also positively consider continuous scale of operations along with satisfactory capital structure and moderate working capital intensive nature of operations. However, these rating strengths are partially offset by average debt protection metrics, exposure to risk related to government regulations and agro climatic factors.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and improvement in profitability
- Sustenance of the capital structure and improvement in debt protection metrics

Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin, any stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure affecting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters and long track of record:

PAIL has an operational track record from 1997. Long standing presence of the promoter in the industry has helped the company to build established relationships with both customers and suppliers.

Proximity to sugar cane growing area and moderate recovery rate

The primary raw material, sugarcane, is available in abundant quantity in nearby area. The presence in sugarcane growing area gives a competitive advantage in terms of easy availability of quality sugarcane and lower freight. The recovery rate of the company remained moderate at 10.60% in FY20 with a recovery of molasses at 4.80% and bagasse recovery at 28% in FY20. (9.60% ,6.5% and 28% in FY19).

Diversified product portfolio:

PAIL derives 62% of income from sugar segment and 38% from distillery products in FY20. PAIL is engaged in crushing of cane, distillery production from grains, ethanol production from molasses and power generation from bagasse for captive consumption. PAIL for backward integration has started manufacturing pet bottles and cap production for liquor packaging. A diversified product portfolio enables the company to spread its risk and reduces dependency on single/few products. The company gradually diversified its product portfolio in its both segments, which also underpinned growth in its both segments.

PAIL has contracts with IOCL and BPCL to supply ethanol. Currently ethanol is now being utilized for making of Sanitizers which are supplied to renowned laboratories and companies.

Continuous scale up of operations:

PAIL is engaged in sugar industry from 25 years and in distillery products for 13 years. The total operating income of the company has witnessed an increasing trend with a CAGR of ~6.11% during FY17-FY20 and stood at ~Rs.400 crore in FY20 as compared to Rs.334 crore in FY18. The growth in the revenue was mainly driven by increase in capacity utilization leading to higher volume for sugar and higher sales realization (revenue from sugar segment improved from ~Rs.206 crore in FY18 to ~Rs.246 crore in FY20). On the other hand, Distillery products segment also witnessed a moderate growth from ~Rs.134 crore in FY18 to ~Rs.153 crore in FY20. PAIL has own brands in IMFL which are in high demand regions like Delhi/ NCR and is largest selling brands in Haryana. The company gradually diversified its product portfolio in its both segments, which also underpinned growth in its both segments. With an increase in absolute value of EBITDA, EBITDA Margin and PAT Margin which were 7.36%, 1.45% in FY19 has increased to10.13% and 3.29% in FY20.

Satisfactory capital structure:

The net worth of PAIL stood at Rs 166.51 crore in FY20. The long term debt equity ratio and overall gearing ratio improved from 0.40x and 1.53x respectively as on March 31, 2019 to 0.35x and 1.25x respectively as on March 31, 2020. The total indebtedness of the company as reflected by TOL/TNW improved from 2.08x as on March 31, 2019 to 1.75x as on March 31, 2020 driven by decrease in current liability, bank borrowing and steady accretion of profit to net worth. Total debt of the company is in FY20 comprises of Rs 19.93 crore of term loan, repayment of term loan is Rs 16.60 crore and bank borrowing of Rs 90.06 crore.

Moderate Working capital intensive nature of operations:

The operations in sugar and distillery sector are capital intensive. PAIL is engaged with client having Licence 1 and Licence 13 and is approved by government for sale of IMFL, country liquor and company has 25 agents for sale of sugar. The company holds an inventory and creditors average period for 140 days for FY20 .The Working Capital Cycle of the company stood moderate at 34 days in FY20 (59 days in FY18). The current ratio is low at 0.78x as on March 31, 2020. PAIL has utilised bank limits to the extent of 74% in the past twelve months ending April 2020.

Key Rating Weaknesses

Agro Climatic factors

Sugarcane and broken rice is the key input into the sugar and distillery industry and is dependent on timely monsoons. Any adversity on the timely and adequacy of rainfall, given highly uneven pattern of rainfall observed in the last few years, would drastically affect the availability and price of raw material thereby affecting profitability of the company.

Average debt protection metrics:

The debt protection metrics of the company remained average over the years marked by its satisfactory gross cash accruals. The gross cash accruals of the company witnessed a steady improvement from Rs.13.14crore in FY18 to Rs.19.36 crore in FY20. The interest coverage improved yet remained moderate at 2.82x in FY20 (1.69x in FY19) driven by increase in absolute EBITDA. Total debt to GCA remained moderate at 6.49 years in FY20. Debt service coverage ratio is below unity for FY18 and FY20 as company is considering repayment made towards soft loan limit of Rs 24 crore from over all CC limit of 95 crore from PNB bank and Facility availed of Rs 32 crore from Karnal Central Co-operative Bank Ltd (for repayment for Sugarcane farmer) is considered instead of limits being absorbed under CC facility which has impacted the debt service coverage ratio. Going forward, Infomerics expects the financial risk profile to improve in the near term.

Exposure to risk related to government regulations

The Sugar and Liquor industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. The procurement of sugarcane by the sugar entities is governed by the Sugarcane (Control) Order, 1966, which stipulates that the mills need to source their sugarcane only from the command area allocated to them. The order also makes it mandatory for the sugar mill to necessarily uplift the entire sugarcane production of the farmer, irrespective of the market demand, which has a considerable impact on the inventory holding pattern.

The liquor industry in India is governed by strict government regulations and license regime that differ from state to state. Each India's states have their own regulatory controls on the production, marketing and distribution, and even pricing of alcohol. Further, high taxation and duties also make the industry dynamics complex.

This makes its operating profitability susceptible to any policy measure announced by the Government.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

PAIL earned a GCA of Rs.19.36 crore in FY20 as against its repayment obligation of Rs.15.60 crore and bank limits remained utilized to the extent of ~74% during the past 12 months ended April 2020 indicating an adequate liquidity buffer. The company has a Current Ratio of 0.78x as of March 31, 2020. The free cash & cash equivalent was Rs. 6.30 Crore as on July 15, 2020. Liquidity is expected to remain Adequate.

About the Company

Piccadily Agro Industries Ltd (PAIL), a Public Limited Company, was incorporated in the year 1994 and started it's commercial operations in 1997 as a sugar processing company. Later in 2007, PAIL has set up a distillery unit. At present the company is engaged in manufacturing sugar and distillery products at a manufacturing plant in Karnal, (Haryana) covering an area of around 168 acres. The facility comprises a 5,000-tonne-per-day crushed sugar production unit and a 90kpld distillery unit and a 10klpd malt spirit unit. It also has a co-gen power capacity of 6 MW.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	371.3	399.4
EBITDA	27.32	40.44
PAT	5.52	13.16
Total Debt	130.93	125.59
Tangible Net worth	153.3	166.5
^Adjusted Net Worth	85.3	100.4
EBITDA Margin (%)	7.36	10.13
PAT Margin (%)	1.45	3.29
Overall Gearing Ratio (x)	1.53	1.25

^Investment in associate company is taken into consideration while calculating Adjusted net worth.

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A.

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.	Long Term Fund Based Limits – Cash Credit	Long Term	95.00*	IVR BBB/ Stable outlook		-	-
2.	Short Term Non Fund Based Limits – ILC/ FLC/ ILG	Short Term	5.00	IVR A3+		-	-

*Facility includes sublimit of soft loan – Rs 24 crore

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Bank Facility- Cash Credit	-	-	-	95.00*	IVR BBB/Stable Outlook
Short Term Bank Facilities – ILC/ FLC/ ILG			-	5.00	IVR A3+

*Facility includes sublimit of soft loan – Rs 24 crore

Annexure II: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Piccadily-Agro-lenders-31july20.pdf