Aggarwwal Exports

February 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2.50	CARE BB+; Stable	Assigned
Long Term / Short Term Bank Facilities	7.00	CARE BB+; Stable / CARE A4+	Assigned
Short Term Bank Facilities	30.50	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Aggarwwal Exports (AGEX) are primarily constrained by its modest scale of operations and elongated operating cycle. Further, the ratings are also constrained by risk associated with foreign exchange fluctuation risk, constitution of the entity being a partnership firm, raw material price volatility risk and its susceptibility to intense industry competition & threat of substitution from synthetic menthol.

The ratings, however, draws comfort from experienced partners coupled with long track record of operations, favourable location of manufacturing facility, moderate profitability margins, capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume driven growth in business leading to improvement in scale of operations as marked by total operating income of above Rs.120.00 crore on sustained basis.
- Improvement in the gross operating cycle of the firm for less than 95 days.
- Strengthening of partner's capital base and improvement in capital structure as marked by overall gearing ratio of below 0.80x.

Negative factors

- Deterioration in the capital structure as marked by overall gearing ratio of above 2.00x.
- Decline in profitability margins as marked by PBILDT margin of below 3.50% on a sustained basis.

Analytical approach: Standalone

Key weaknesses

Modest scale of operations: AGEX's scale of operations stood modest as evident from total operating income (TOI) of Rs.77.08 crore and gross cash accruals of Rs.5.17 crore respectively, during FY22 (FY refers to the period April 1 to March 31) as against Rs.77.90 crore and Rs.3.66 crore respectively, during FY21. Moreover, AGEX's scale of operations remained declining for the period FY20-FY22 (refers to the period April 1 to March 31). The same was mainly on account of lower intake from its existing overseas customers. Nevertheless, the scale remains modest, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Further, the firm has achieved total operating income of ~Rs.58.37 crore during 9MFY23 (refers to the period from April 1, 2022 to December 31, 2022; based on provisional results) and is expected to clocked turnover of Rs.80.00 crore for FY23.

Elongated operating cycle: The operations of the firm stood elongated as marked by operating cycle of 136 days for FY22 as against 139 days for FY21. Owing to large product portfolio, the firm is required to maintain adequate inventory at each processing stage for smooth running of its production processes and finished goods to ensure prompt delivery to its customers resulting in an average inventory holding period of around 86 days for FY22. Owing to highly competitive industry, the firm has to offer liberal credit period of around 1-2 months to its customers resulting in an average collection period of 52 days for FY22. Further, the firm receives an average credit period of around a week from its suppliers resulting in an average creditor's period of 1 day for FY22. The average utilization of working capital borrowings remained almost 80% utilized for past 12 months period ending December, 2022.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Foreign exchange fluctuation risk: AGEX's operations are primarily focused on the export market and its export contribution to total sales stood around 58% in FY22. However, the raw material is mainly procured from domestic markets. With initial cash outlay for procurement in domestic currency and significant chunk of sales realization in foreign currency, the firm is exposed to the fluctuation in exchange rates. However, the firm has a policy of hedging around 70-80% of its foreign currency receivable. Nevertheless, for the uncovered portion; the firm's profitability margins are exposed to volatility in foreign exchange rate. Moreover, any change in government policies, either domestic or international is likely to affect the firm's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non- tariffs barriers (restriction on the quality of imports), anti- dumping duties, international freight rates and port charges. During FY22, firm has booked profit of Rs.1.07 crore from foreign exchange fluctuations.

Constitution of the entity being a partnership firm: AGEX's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partner. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Raw material price volatility risk: Mentha oil, DMO, menthol, epichlorohydrin, etc. are the major raw materials required for the production. Since, the basic raw materials are petrochemical derivatives, AGEX is exposed to the risk of volatility in the prices of crude oil/natural gas which are primarily driven by international demand and supply scenario. Thus, margins are vulnerable to fluctuation in raw material cost. Adverse fluctuations in raw material prices can affect the AGEX's margins adversely. However, to mitigate the same, company negotiates mentha oil prices with farmers and traders in advance to reduce risk of volatility in prices to a certain extent. However, firm does not have any long-term contracts with its clients, it usually enters into a contract of 3-4 months with its clients and prices are negotiated and fixed at that time of entering into the contract.

Susceptibility to intense industry competition & threat of substitution from synthetic menthol: AGEX operates in the menthol industry, which is low capital or technology-intensive, resulting in low entry barriers. Consequently, the industry is highly fragmented which results in intense industry competition. Further, there is limited differentiation in products of different players, because of which buyers have a high bargaining power and limits the pricing power of the manufacturers resulting in low profitability. The firm also faces competition with synthetic menthol manufacturers wherein the cost of synthetic menthol is lower and as it is readily available with large organised players, it has found acceptance among the erstwhile users of natural menthol. While synthetic menthol capacities are expected to increase going forward, rising demand for menthol products is expected to absorb part of the rising capacity, softening the impact on natural menthol demand. Synthetic menthol could become a possible substitute to natural menthol as the same is not dependent on the vagaries of nature. However, natural menthol, being organic, is generally preferred over synthetic menthol for the food and beverage industry who are the major users of menthol products.

Key strengths

Experienced partners coupled with long track record of operations: AGEX is a family run business. Mr. Lakshmi Narain Gupta, Mr. Neeraj Gupta, Mr. Pranjal Varshney and Mr. Lakshya Varshney are the partners of the AGEX and they collectively look after the overall operations of the firm. Mr. Lakshmi Narain Gupta is graduate by qualification and has accumulated experience of nearly four decades in menthol industry through his association with this entity and in individual capacity. He is well supported by his son; Mr. Neeraj Gupta; who is post graduate by qualification and holds experience of more than two decades in menthol industry through his association with this entity. The other partners of the firm namely; Mr. Pranjal Varshney and Mr. Lakshya Varshney helps in managing day-to-day operations of the entity. The firm is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Favourable location of manufacturing facility: AGEX's manufacturing facility is located in Rampur, Uttar Pradesh, which is known as Mentha-based industry due to the easy availability of the raw materials in districts like Bareilly, Chandausi, Shambhal, etc. Proximity of manufacturing plant to major mentha oil producing region gives AGEX advantage in terms of regular supply of raw material and lower lead time of purchase. The products manufactured by the firm finds its application in pharmaceutical industry, home care products industry, food & beverages industry, perfumery industry, soap manufacturing industry, etc.

Moderate profitability margins, capital structure and debt coverage indicators: The profitability of the firm stood moderate for the last three financial years (FY20-FY22) wherein the company reaps benefits of its established image in the regional market. Further, PBILDT margin of the firm improved and stood at 8.04% in FY22 as against 5.84% in FY21 owing to spurt in the prices of products sold by the firm in addition to proportionate decline in overhead expenses such as raw material

cost. Similarly, PAT margin also improved and stood at 6.25% in FY22 as against 4.24% in FY21 backed by increased PBILDT levels. Further, during 9MFY23, PAT margin stood at 7.70%. The profitability margins of the firm as marked by PBILDT margin is expected to improve further and remain range-bound between 9.00%-11.00% in the projected period since, the firm will be able to sell its products at higher margins owing to its abundant demand in the market.
The capital structure of the firm stood moderate as on the past two balance sheet dates ending March 31, '21-'22 on account of limited debt levels against the net worth base. Overall gearing ratio stood at 1.10x as on March 31, 2022 showing improvement from 1.17x as on March 31, 2021 mainly on account of lower utilization of working capital borrowings as on balance sheet date. Further, on account of limited debt levels, the debt coverage indicators of the firm as marked by interest coverage ratio and total debt to GCA stood moderate at 6.04x and 3.34x respectively, in FY22 as against 5.12x and 4.91x respectively, in FY21. The improvement in coverage indicators is on the back of increase in PBILDT owing to rise in the prices of products sold by the firm consequently leading to higher gross cash accruals.

Liquidity: Adequate

The liquidity position of the firm remained adequate characterized by sufficient cushion in accruals vis-à-vis nil repayment obligations. The firm has reported gross cash accruals (GCA) to the extent of Rs.5.17 crore during FY22 and is expected to generate envisage GCA of Rs.5.30 crore for FY23 against nil repayment obligations in same year. Further, the firm has adequate free cash & bank balances which stood at Rs.2.96 crore as on March 31, 2022. However, the average utilization of its working capital limits remained almost 80% utilized for the past 12 month's period ending December, 2022.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Firm

Rampur, Uttar Pradesh based Aggarwwal Exports (AGEX) was established in the year 1990 as a partnership firm. The firm is currently being managed by Mr. Lakshmi Narain Gupta, Mr. Neeraj Gupta, Mr. Pranjal Varshney and Mr. Lakshya Varshney sharing profits and losses in the ratio of 10%, 50%, 20% and 20% respectively. The firm is engaged in the manufacturing of mentha oil-based various oils and chemicals like menthol, mentha oil, glycidol, cornmint oil, cornmint oil fractions, R-Glycidol, R 3-Chloro-1,2-Propanediol, (R)-Glycidyl Butyrate, S-Epichlorohydrin, R-Epichlorohydrin, Menthyl acetate, Terpenes, Menthone, DMO, etc. The products manufactured by the firm find its application in pharmaceutical industry, home care products industry, food & beverages industry, perfumery industry, soap manufacturing industry, Tobacco industry, etc. The manufacturing facility of the company is located at Rampur, Uttar Pradesh with an installed capacity to manufacture 1000 metric tonnes per annum (TPA) as on March 31, 2022 of chemicals. AGEX sells its products to various manufacturers in PAN India and is also making ~58% in FY22 export of its products to countries like China, USA, France, UK, Philippines, Spain, Hungary, etc.
The firm has one associate concern namely; "Fine Organics" (established in 1999); a partnership firm engaged in the manufacturing of menthol-based chemicals.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)*
Total operating income	77.90	77.08	58.37
PBILDT	4.55	6.20	NA
PAT	3.30	4.82	4.50
Overall gearing (times)	1.17	1.10	NA
Interest coverage (times)	5.12	6.04	NA

A: Audited; Prov.: Provisional; NA: Not Available
*refers to the period from April 1, 2022 to December 31, 2022.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	2.50	CARE BB+; Stable
Fund-based - ST-EPC/PSC		-	-	-	12.50	CARE A4+
Fund-based - ST-FBN / FBP		-	-	-	11.00	CARE A4+
Fund-based - ST-Standby Line of Credit		-	-	-	5.00	CARE A4+
Fund-based/Non-fund-based-LT/ST		-	-	-	7.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.00	CARE A4+
Non-fund-based - ST-Letter of credit		-	-	-	1.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - ST-EPC/PSC	ST	12.50	CARE A4+				
2	Fund-based - ST-FBN / FBP	ST	11.00	CARE A4+				
3	Fund-based - ST-Standby Line of Credit	ST	5.00	CARE A4+				
4	Fund-based - LT-Cash Credit	LT	2.50	CARE BB+; Stable				
5	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A4+				
6	Non-fund-based - ST-Credit Exposure Limit	ST	1.00	CARE A4+				
7	Fund-based/Non-fund-based-LT/ST	LT/ST*	7.00	CARE BB+; Stable / CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Fund-based - ST-FBN / FBP	Simple
4	Fund-based - ST-Standby Line of Credit	Simple
5	Fund-based/Non-fund-based-LT/ST	Simple
6	Non-fund-based - ST-Credit Exposure Limit	Simple
7	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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