

## Aayog Agro Private Limited (Revised)

May 19, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	50	<b>CARE BBB-; Stable (Triple B minus; Outlook: Stable)</b>	Assigned
Long Term / Short Term Bank Facilities	5	<b>CARE BBB-; Stable/ CARE A3 (Triple B minus; Outlook: Stable/ A Three)</b>	Assigned
<b>Total Bank Facilities</b>	<b>55.00 (Rs. Fifty-Five Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

For arriving at the ratings, CARE has combined the risk profiles of Ankit India Limited (AIL) and Aayog Agro Private Limited (AAPL).

The ratings assigned to the bank facilities of Aayog Agro Private Limited (AAPL) factors in moderate financial performance of the group in FY21 (refer to the period April1 to March 31), followed by improvement witnessed in 11MFY22. The rating also takes into account comfortable capital structure and debt coverage indicators coupled with very low working capital limit utilization. Despite of the ongoing capex in AAPL, the overall capital structure of the group is expected to remain comfortable over the medium term.

The rating also derives strength from the long experience of the promoters and satisfactory track record of operations, reputed clientele mitigating counterparty credit risk to some extent and satisfactory capacity utilization of the flour mill division in AIL. The rating, however, remains constrained by low capacity utilization of the rice mill segment, improving yet modest operating margin, client and geographical concentration risk, limited growth opportunities on account of competitive nature of the industry, raw material availability susceptible to change in government policies and vagaries of nature and exposure to project risk.

### Rating Sensitivities

#### Positive rating sensitivities

- Increase in scale of operations and PBILDT margin, for the combined entity, beyond Rs 500 crore and 5% respectively on a sustained basis
- Sustained increase in capacity utilization of rice mill division, providing for better scale of operations.

#### Negative rating sensitivities

- Higher than anticipated debt funded capex leading to deterioration in capital structure and debt coverage indicators
- Substantial decline in capacity utilization leading to a scale of less than Rs 250 crores on a combined basis, with PBILDT margin of less than 3.5%.
- Significant Delay in completion of project along with cost overruns.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Significant experience of promoters

AAPL was setup in July 2020 by Ms Eshna Chandak, daughter of Mr Hitesh Chandak who has around three decades of experience in various business lines including the group company AIL, which was incorporated in 1981, and under his stewardship, the group has grown over the years.

##### Reputed client base with steady stream of revenue visibility in flourmill division

AIL over the years has entered into tie-ups and job work contracts with various reputed organizations and institutional players for its flour mill. Presently, in AIL, the major proportion of products from the flour mill is sold to players like Britannia Industries Limited, ITC Ltd. Indian Army, Food and supply department of WB, Bisk Farm among others.

AAPL plans to sell to same set of customers as that of its established group concern AIL. Further given its geographical advantage it is likely to have better reach in the Central and North zone of the country to cater to both organized and unorganized markets.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

The long-term association with reputed clienteles coupled with repeated orders mitigates debtor recovery risk to a significant extent and off-take risk attributable to huge demand for their brands and considerable market share.

#### **Satisfactory capacity utilization of flour mill segment in AIL**

The capacity utilization (CU) of the flour mill of AIL declined in FY21 on account of lower sales to Indian Army due to logistics issues labour unavailability issues in Q1FY21 faced by the company in view of Covid-19 restrictions. However, in 11MFY22, the CU has improved substantially on the back of increase in sales to Indian Army coupled with increase in demand from customers like Britannia, ITC and Saj Foods Products Private Limited for wheat flour. Further although the overall utilization for rice mill remains modest, it has also seen an improvement in 11MFY22.

#### **Moderate financial performance in FY21 and 11MFY22**

The total operating income (TOI) of the group (AAPL being a project stage company has 'Nil' TOI) has declined by ~20% in FY21 to Rs 266.17 crore mainly on account of decline in trading of wheat coupled with decline in revenue from sales to Indian Army in Q1FY21 due to disruptions caused by Covid-19. However, the PBILD margin has improved in FY21 as against FY20 on account of substantial decline in trading sales which command lower margin. Interest coverage ratio improved from 3.84x in FY20 to 5.89x in FY21 in view of decline in finance cost.

In 11MFY22, the group reported estimated PBILD and PAT of Rs 13.30 crore and Rs 7.53 crore on TOI of Rs 277.33 crore. The improvement in profitability is backed by higher job work income, favourable prices of wheat procurement and lower trading sales during the said period.

#### **Comfortable capital structure**

The capital structure of the group is comfortable marked by negligible debt repayment obligation pertaining to vehicle loan. The overall gearing ratio has improved from 0.32x as on March 31, 2020 to 0.26x as on March 31, 2021 on account of decline in total debt due to nil working capital utilization as on balance sheet date and accretion of profits to reserve. Consequently, TD/GCA has also improved from 4.17x in FY20 to 3.40x in FY21 in view of decline in total debt levels and increase in cash profits. Further the group continues to have similar capital structure as on 11MFY22, although some moderation is expected over the medium term with term debt of Rs 38 crores for the project in AAPL.

#### **Key Rating Weaknesses**

##### **Low capacity utilization for the rice mill segment in AIL**

The CU of rice mill though improved to ~25% in FY21 (14% in FY20) continued to remain on the lower side. Although modest, it has further improved to 31% in 11MFY22. The improvement in current year is backed by increased offtake through job work.

##### **Client and geographical concentration risk**

Currently majority of the operations of the group is through AIL, wherein AIL is exposed to client concentration risk as ~46% of the total sales of the company in FY21 is attributable to top 5 customers as against ~52% in FY20. Further it is estimated at about ~49.98% in 11MFY22. This apart, the group is also exposed to the risk of non-renewal of contracts with its customers which may impact the capacity utilization in the short to medium term. However, repeat orders from reputed clienteles moderate the off-take risk attributable to huge demand for their brands and considerable market share.

The group is currently operating only in Eastern India, with the major concentration of sales being in West Bengal, thereby exposing the company to moderate geographical concentration risk. However, with AAPL the company is expected to diversify and expand its presence in central India. Sustaining clientele in existing markets along with adequate penetration in unorganized segment will remain key monitorable.

##### **Limited scope of substantial growth opportunities**

The nature of business and the market structure in which the group operates limits the group's growth prospects. There is a set structure for sourcing raw material from the market by each player as availability of wheat and paddy is limited. Furthermore, the high competition in the industry limits the group's pricing flexibility to an extent.

##### **Exposed to vagaries of nature and raw material availability susceptible to change in government policies**

The cultivation of paddy and wheat is highly dependent on monsoon hence the availability of raw material can be impacted in case of deficit/excessive rainfall. In such cases, the group will be unable to fulfil its commitment towards its contractual customers. This apart, the prices of raw materials viz wheat and rice are controlled by the government, hence the availability of raw material is exposed to changes in government policies as well.

### Exposure to Project Risk

The group is undertaking a project in AAPL, for setting up a flour mill in Hajipur, Bihar, for a total cost of Rs 56 crores (excluding working capital cost and contingencies) to be financed through debt of Rs.38 crore and rest through promoter funding. With COD expected over July 2022, timely execution of the project and commensurate ramp up will be closely monitored.

However, the project risk gets mitigated to a larger extent with comfort from the group company's cash flows (majorly AIL), which shall be available in case of any exigencies over the medium term.

### Industry Outlook

Fast Moving Consumer Goods (FMCG) sector is India's fourth-largest sector with household and personal care accounting for 50% of FMCG sales in India. There are three main segments in the sector viz food and beverages (19% of the sector); healthcare, (31% of the sector) and household & personal care, which accounts for the remaining 50% share. The urban segment contributes to about 55% of the revenue share, while the rural segment accounts for 45%. The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US\$ 220 billion by 2025, from US\$ 110 billion in 2020. The Government has allowed 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail. This would bolster employment, supply chain and high visibility for FMCG brands across organized retail markets thereby bolstering consumer spending and encouraging more product launches. The sector witnessed healthy FDI inflows of US\$ 18.19 billion from April 2000 to March 2021. Growing awareness, easier access, and changing lifestyle are the key growth drivers for the consumer market. Initiatives undertaken by the Government to increase the disposable income in the hands of common man, especially from rural areas are expected to be beneficial for the sector.

### Liquidity: Adequate

The liquidity position of the group is adequate with gross cash accruals of Rs. 6.23 crore as against negligible debt repayment obligation. The average utilization of fund-based limits was modest in the last 12 months ended February 2022 in AIL, further as per the banker interaction, the utilization of non fund-based limits stood 50%. The free cash and bank balance of the group stood at Rs. 2.20 crore as on March 31, 2021. Going ahead, cash accruals are expected to be sufficient to meet the repayment obligations.

**Analytical approach:** For arriving at the ratings, CARE has combined the risk profiles of Ankit India Limited (AIL) and Aayog Agro Private Limited (AAPL). The above companies operate under common management, are involved in similar lines of business, have operational synergies and exhibit cash flow fungibility.

### Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

### About the company

Aayog Agro Pvt Ltd (AAPL) was incorporated on 23rd July 2020 for setting up of Rolling Flour Mill cum Chakki Plant. The setup is expected to have a Roller Flour Mill (90,750 MTPA) cum Chakki Plant (33,000 MTPA) Vaishali, Hajipur, Bihar in AAPL.

AIL, incorporated in 1981 as Pick up Investment Ltd, was initially engaged in the business of investment and finance. In 1995, the name of the company was changed to its present name. AIL set up its first roller flour mill (present capacity – 1,65,750 MTPA) in 2000. In 2009, as part of its diversification strategy, the company set up a paddy processing unit with an installed capacity of 2,16,000 MTPA. Currently, the day-to-day affairs of AIL are looked after by its Managing Director, Hitesh Chandak, who is ably assisted by his nephew Ankit Chandak.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (UA)	11MFY22 (UA)
Total operating income	330.79	266.17	277.33
PBILDT	9.53	9.14	NA
PAT	3.51	3.45	NA
Overall gearing (times)	0.32	0.26	NA
Interest coverage (times)	3.84	5.89	NA

A: Audited, Standalone audited numbers of both entities are combined for FY21, UA: Unaudited, NA: Not Available

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

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	5.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan		-	-	March-2030	38.00	CARE BBB-; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB-; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	5.00	CARE BBB-; Stable / CARE A3				
3	Fund-based - LT-Term Loan	LT	38.00	CARE BBB-; Stable				

\* Long Term / Short Term

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

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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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