Abhinav Industries

March 20, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facility	2.38	**CARE B+; Stable (Single B Plus ; Outlook: Stable)**	**Assigned**
Short-term Bank Facility	12.00	**CARE A4 (A Four)**	**Assigned**
Total	**14.38 (Rupees Fourteen crore and Thirty Eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Abhinav Industries (AI) are constrained by its small scale of operation with moderate profitability margins, volatile agro-commodity (paddy) prices with linkages to vagaries of the monsoon, regulated nature of the industry, working capital intensive nature of business, leveraged capital structure with moderate debt coverage indicators, proprietorship nature of constitution and presence in an intensely competitive industry. However, the aforesaid constraints are partially offset by its experienced proprietor with satisfactory track record of operation and proximity to raw material sources and favourable industry scenario.

The ability of the entity to grow its scale of operations and improve its profit margins and to manage working capital effectively would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with moderate profitability margins: AI is a small player in the rice milling industry with total operating income of Rs.20.06 crore (Rs.8.69 crore in FY16) and PAT of Rs.0.45 crore (Rs.0. 39 crore in FY16) in FY17. Further, the net worth base and total capital employed was low at Rs.1.46 crore and Rs.7.20 crore, respectively, as on March 31, 2017. The entity has reported total operating income of Rs.12.50 crore in 11MFY18. Furthermore, the profitability margins of the entity remained moderate marked by PBILDT of 6.32% (13.41% in FY16) and PAT margin of 2.26% (4.49% in FY16) in FY17.

Volatile agro-commodity (paddy) prices with linkages to vagaries of the monsoon: AI is primarily engaged in the processing of rice products in its rice mills. Paddy is mainly a 'kharif' crop and is cultivated from June-July to September-October and the peak arrival of crop at major trading centers begins in October. The cultivation of paddy is highly dependent on the monsoon. Unpredictable weather conditions could affect the output of paddy and result in volatility in price of paddy. In view of seasonal availability of paddy, working capital requirements remain high at season time owing to the requirement for stocking of paddy in large quantity.

Regulated nature of the industry: The Government of India (GoI), every year decides a minimum support price (MSP) to be paid to paddy growers which limits the bargaining power of rice millers over the farmers. The MSP of paddy increased during the crop year 2017-18 to Rs.1550/quintal from Rs.1470/quintal in crop year 2016-17. The sale of rice in the open market is also regulated by the government through levy of quota, depending on the target laid by the central government for the central pool. Given the market determined prices for finished product vis-à-vis fixed acquisition cost for raw material, the profit margins are highly vulnerable.

Working capital intensive nature of business: Paddy is mainly a 'kharif' crop and is cultivated from June-July to September-October and the same is processed by rice millers throughout the year. Hence, the millers are required to carry high levels of raw material inventory in order to mitigate the raw material availability risk, resulting in relatively high inventory period. Accordingly the average inventory holding period was on the higher side in the range of 47 days to 91 days during last two years (FY16-FY17). Further, entity pays upfront to its suppliers whereas it needs to provide credit of around a week to its customers. Therefore the operations of the entity remained working capital intensive in nature. The average utilization of working capital limits was high at around 85% during last 12 months ended in December 2017.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Leveraged capital structure with moderate debt coverage indicators: The capital structure of the entity remained leveraged marked by debt equity and overall gearing ratios at 0.39x and 3.94x respectively as on March 31, 2017. Furthermore, the overall gearing ratio was deteriorated as on March 31, 2017 due to higher utilisation of working capital. The debt coverage ratios were deteriorated in FY17 marked by deterioration of interest coverage ratio and total debt to GCA due to higher interest expenses and higher debt level as on account closing dates respectively. However, the debt coverage ratios remained moderate marked by interest coverage ratio of 2.24x and total debt to GCA of 8.19x in FY17.

Proprietorship nature of constitution: AI, being a proprietorship entity, is exposed to inherent risk of proprietor' capital being withdrawn at time of his personal contingency and entity being dissolved upon the death/insolvency of the proprietor. Moreover, proprietorship entities have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Intensely competitive industry: Rice milling industry is highly fragmented and competitive due to presence of many small players operating in this sector owing to its low entry barriers, due to low capital and technological requirements. Bhatapara and nearby districts of Chhattisgarh are major paddy growing area with many rice mills operating in the area. High competition restricts the pricing flexibility of the industry participants and has a negative bearing on the profitability.

Key Rating Strengths

Experienced proprietor with satisfactory track record of operations: The entity is into custom rice milling industry since 2005 and thus has satisfactory operational track record. Mr. Ashwani Kumar Sharma is associated with the company since its inception. They have more than a decade of experience in rice milling industry, looks after the day to day operations of the company. They are supported by a team of experienced personnel.

Proximity to raw material sources and favorable industry scenario

AI's plant is located at Bhatapara district of Chhattisgarh which is a paddy growing region in eastern India resulting in lower logistic expenditure (both on transportation and storage), easy availability and procurement of raw materials at effective prices. Rice, being one of the primary food articles in India, demand is high throughout the country and with the change in life style and health consciousness; by-products of the same like rice bran oil etc. are in huge demand.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
CARE's Policy on Default Recognition

About the entity

Established in 2005, Abhinav Industries (AI) was promoted by Mr Ashwani Kumar Sharma to set up a rice milling and processing plant. The entity has been engaged in milling and processing of rice at its plant located at Bhatapara, Chhattisgarh with an installed capacity of 45,000 metric tonnes per annum. This apart, the entity also does custom milling for the State government of Chhattisgarh.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	8.69	20.06
PBILDT	1.16	1.27
PAT	0.39	0.45
Overall gearing (times)	3.75	3.94
Interest coverage (times)	2.43	2.24

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:
Name: Rajesh Shaw
Tel: 033-40181636
Mobile: +91- 9007700172
Email: rajesh.shaw@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2022	0.38	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.38	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE B+; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A4	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691