

## Agarwal Industrial Corporation Limited

June 11, 2019

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities (including proposed Rs. 18.50 crore)	90.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long-term/Short-term Bank Facilities (proposed)	10.00	CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three)	Assigned
<b>Total Facilities</b>	<b>100.00</b> (Rs. One Hundred Crore only)		

<sup>1</sup>Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Agarwal Industrial Corporation Limited derives comfort from experienced and well-established promoters, established relationship with clientele, growing scale of operations albeit moderate level of profitability and comfortable financial risk profile.

The above strengths, however, are partially tempered by working capital intensive nature of operations owing to higher collection period, susceptibility to volatility in raw material prices, exposure to foreign exchange risk, prospects dependent on infrastructure activity and competition from existing players.

Ability of the company to achieve revenue growth, timely realization of receivables, maintaining profitability margins amidst susceptibility to volatility in raw material prices and intense competition from existing players are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Experienced and well-established promoters*

The company was established in the year 1995 jointly by its promoters – Mr. Jaiprakash Agarwal, Mr. Lalit Agarwal, Mr. Ramchandra Agarwal and Mr. Mahendra Agarwal. The promoters of the company have vast experience individually in the bitumen industry. Further, the promoters are ably supported by middle and lower level of management in their day-to-day operations.

##### *Established relationship with clientele*

The company has established relationship with its clientele consisting of infrastructure, industrial and others companies. The clientele base of the company has remained diversified with top customers contributing around 34% and 23% to the overall revenue of the company during FY19 (refers to period from April 01 to March 31) and FY18 respectively. Furthermore, the company undertakes transportation activity mainly through its own fleets, majority of these are on contract with reputed companies.

##### *Growing scale of operations albeit moderate level of profitability*

The total operating income of the company has grown at a CAGR of 21.35% during the three-year ended FY18. Further, the company has reported growth of total operating income from Rs. 414.58 crore during FY18 to Rs. 532.23 crore during FY19 (as per abridged financials). The growth is supported by increase in volume of sales of bitumen products. Furthermore, the profitability stood at moderate level with blended PBILDT margins range-bound at 7% – 9% during the last three-years ended FY18 and it has remained in the similar range during FY19 (as per abridged financials).

##### *Comfortable financial risk profile*

The financial risk profile of the company stood at comfortable level marked by low gearing, comfortable debt coverage and interest coverage ratios. The tangible networth of the stood at Rs. 119.64 crore at the end of FY18, consisting of funds raised through issue of share warrants in last two-years.

### Key Rating Weaknesses

#### *Susceptibility to volatility in raw material prices and exposure to foreign exchange risk*

The prices of bitumen are determined by the prices prevailing in the international market. The revision in bitumen prices happens every fortnightly in the international market, and the effect of revision in prices usually takes further days to exhibit

in the domestic market. Furthermore, the company imports products from overseas markets exposing itself to fluctuations in foreign exchange risk.

#### **Prospects dependent on infrastructure activity and competition from existing players**

The infrastructure industry, mainly road sector, are major consumers of the bitumen and related products in the industry. The growth in bitumen industry is mainly dependent on infrastructure activities. Increasing infrastructure activities, particularly in road sector, has led to higher demand of bitumen products in recent years. The growth in volumes of the company is also attributable to the increasing infrastructure activity supported by governments' focus on building roads and infrastructure. Furthermore, the company faces competition from existing small and mid-size players in the industry.

#### **Liquidity**

##### **Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature evident by high amount of funds blocked in debtors. This is further evident by the average utilisation of working capital limits at 87% during the last 12-months ended April 2019. The current ratio stood at 2.01 times as on March 31, 2019 (as per FY19 abridged financials), with cash and bank balances of Rs. 2.30 crore. Thus, the above mentioned factors signify moderate level of liquidity position of the company.

**Analytical approach:** Consolidated

[The company has a wholly-owned subsidiary company – Bituminex Cochin Private Limited]

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

#### **About the Company**

Incorporated in the year 1995, Agarwal Industrial Corporation Limited is involved in the business of manufacturing and trading of bitumen and bituminous products and transportation of specialized bulk bitumen and LPG (Liquefied Petroleum Gas). The company is also involved in generation of power through wind mills situated in Jaisalmer (Rajasthan) and Dhulia (Maharashtra). The company has a wholly-owned subsidiary company known as Bituminex Cochin Private Limited, which is also involved in manufacturing and trading of bituminous products.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Abr.)
Total operating income	414.58	532.23
PBILDT	31.22	37.84
PAT	10.28	13.45
Overall gearing (times)	0.80	0.58
Interest coverage (times)	3.61	4.10

A: Audited; Abr. – Abridged

**Status of non-cooperation with previous CRA:** None

**Any other information:** Not Applicable

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

#### **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-Cash Credit (Including proposed Rs. 18.50 crore)	-	-	-	90.00	CARE BBB; Stable
Non-fund-based - LT/ ST (proposed)	-	-	-	10.00	CARE BBB; Stable / CARE A3

#### **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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit (Including proposed Rs. 18.50 crore)	LT	90.00	CARE BBB; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST (proposed)	LT/ST	10.00	CARE BBB; Stable / CARE A3	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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