Ahuja Impex Private Limited

January 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	5.00	**CARE BB; Stable (Double B; Outlook: Stable)**	Assigned
Short-term Bank Facilities	10.00	**CARE A4 (A Four)**	Assigned
Total Facilities	**15.00 (Rupees Fifteen crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ahuja Impex Private Limited (AIPL) are primarily constrained by its small scale of operations, low profitability margins, leveraged capital structure, weak debt service coverage indicators and elongated operating cycle. Further, the ratings are susceptible to foreign exchange fluctuation risk and highly fragmented nature of industry characterized by intense competition.

The ratings, however, draw comfort from experienced promoters coupled with long track record of operations, association with reputed customer base along with growing scale of operations.

Going forward, the ability of AIPL to profitably scale up its operations while improving its profitability margins and managing its working capital requirements will be crucial and act as the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations: AIPL's scale of operations has remained small marked by total operating income and gross cash accruals of Rs.35.15 crore and Rs.0.23 crore, respectively, during FY17 (refers to the period April 1 to March 31). Furthermore, the net worth base also stood small at Rs.3.56 crore as on March 31, 2017. The small scale of operations limits the company's financial flexibility in times of stress and deprives it of scale benefits.

Low profitability margins, leveraged capital structure and weak debt service coverage indicators: The profitability margins of the company have been historically on the lower side for past three financial years (FY15-FY17) owing to trading nature of the business and intense market competition given the highly fragmented nature of the industry. Further, high interest burden on its bank borrowings also restricts the net profitability of the company. Though, the PBILDT margin of the company improved and stood at 2.58% in FY17 as against 1.76% in FY16 on account of change in product mix; however, it continues to remain low. PAT margin stood above 0.35% in last two financial years (FY16-FY17).

The capital structure of the company stood leveraged for the past three balance sheet dates (FY15-FY17) on account of high dependence on working capital borrowings to meet its working capital requirements. Overall gearing stood at 2.99x as on March 31, 2017 showing deterioration from 2.62x as on March 31, 2016 mainly on account of higher utilization of working capital borrowings as on balance sheet date coupled with infusion of funds by directors and relatives in the form of unsecured loans.

Further, debt service coverage indicators as marked by interest coverage and total debt to GCA stood weak for the past three financial years (FY15-FY17) owing to high debt levels and low profitability position. Interest coverage ratio and total debt to GCA stood at 1.50x and 46.78x during FY17.

Elongated operating cycle: The company has elongated operating cycle on account of high collection period**.** The company is required to maintain adequate inventory of traded goods of around one month to cater the immediate demand of the customers resulting in inventory holding period of around 6 days during FY17. Further, being present in a highly competitive business and having low bargaining power with its customers, the company normally extends credit period of around 3-4 months to its customers resulting in an average collection period of 114 days in FY17. However, the

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

company procures the traded products majorly on cash and advance basis with maximum credit period received from its supplier stood around one month. The fund-based working capital borrowings of the company remained 70% utilized during the past 12 months ending November 30, 2017.

Foreign exchange fluctuation risk: The company is mainly sourcing its petroleum products requirement through imports from gulf countries like United Arab Emirates, Saudi Arabia, Iran, etc. and its import procurement to traded products cost stood at 95% for FY17. The traded products are completely sold in the domestic market. With initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company is exposed to the fluctuation in exchange rates which the company does not hedge.

Highly fragmented nature of industry characterized by intense competition: The spectrum of the trading industry in which the company operates is highly fragmented and competitive marked by the presence of numerous players in India. Hence, the players in the industry do not have any pricing power and are exposed to competition induced pressures on profitability. Moreover, the value addition is low on account of trading nature of business operations which further impacts the profitability margins.

Key Rating Strengths

Experienced promoters coupled with long track record of operations: AIPL is a family run business. Mr. Krishan Kumar Ahuja and Mr. Abhishek Ahuja are the directors of AIPL and they collectively look after the overall operations of the company. Mr. Krishan Kumar Ahuja has accumulated experience of more than two decades in trading industry through his association with this entity and other associate concern. He is ably supported by Mr. Abhishek Ahuja, who is a post graduate and holds one and half decade of experience in this business through his association with this entity. AIPL has been operating in this business for more than two decades, which aid in establishing a healthy relationship with both customers and suppliers.

Association with reputed customer base: AIPL has been operational for more than two decades and has been able to establish healthy relationship with its customers. Over these years the company has established business relationship with reputed companies. Association with reputed customer base ensures timely realization of receivables.

Growing scale of operations: AIPL's scale of operations has been growing continuously on y-o-y basis in last 3 financial years (FY15-FY17) and AIPL's total operating income stood at Rs.35.15 crore in FY17. The growth in income was mainly attributed to increase in quantity sold to existing as well as newly added customers. Further, the company has achieved TOI of Rs.25.00 crore during 8MFY18 (refers to the period April 1 to November 30; based on provisional results).

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's rating methodology for wholesale trading companies
Financial ratios – Non-Financial Sector

About the Company

Delhi based Ahuja Impex Private Limited (AIPL) was incorporated in January, 1996 and is currently being managed by Mr. Krishan Kumar Ahuja and Mr. Abhishek Ahuja. The company is engaged in the trading of varied range of petroleum products such as base oil, bitumen, lubricating oil, virgin oil, grease, residue wax, slack wax, etc. The company procures the traded products from gulf countries like United Arab Emirates, Saudi Arabia, Iran, etc. and selling its products to industrial oil manufacturers & refineries, construction companies and dealers.

"Delhi Paints & Oil Traders" is group associate and engaged in the trading of lubricants.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	34.32	35.15
PBILDT	0.60	0.91
PAT	0.15	0.13
Overall gearing (times)	2.62	2.99
Interest coverage (times)	1.53	1.50

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****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.

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	-	-	-	5.00	CARE BB; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	10.00	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-Cash Credit	LT	5.00	Suspended	-	-	-	1)Suspended (08-Sep-14)
2.	Non-fund-based - ST-Letter of credit	ST	10.00	Suspended	-	-	-	1)Suspended (08-Sep-14)
3.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB; Stable	-	-	-	-
4.	Fund-based/Non-fund-based-Short Term	ST	10.00	CARE A4	-	-	-	-

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