

## Anant Agro Industries

February 17, 2020

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-Term Bank Facilities	-	-	Reaffirmed and Withdrawn
<b>Total Facilities</b>	-		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Anant Agro Industries (Jaivik Krishi Pariyojana) 'AAI' continues to remain constrained by its moderate scale of operations in fragmented cotton industry with low profitability, leveraged capital structure and weak debt coverage indicators. The rating is further constrained by seasonality associated with cotton availability, susceptibility of margins to cotton price fluctuations and proprietorship nature of constitution.

The rating however, continues to derive strength from the experience of the proprietor in the cotton ginning business and its presence in cotton growing area of Madhya Pradesh.

Hence, CARE has reaffirmed the outstanding rating of 'CARE BB-; Stable' [Double B Minus; Outlook: Stable] assigned to the bank facilities of AAI; however, CARE has simultaneously withdrawn the rating with immediate effect on the request of the firm and 'No Objection Certificate' received from the lender that has extended the facilities rated by CARE.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Moderate scale of operations with low profitability**

The scale of operations remained moderate, however, witnessed a growth of ~48% during FY19 marked by TOI of Rs.145.13 crore as compared to Rs.98.27 crore in FY18. There was overall improvement in the profitability marked by PBILDT margin of 3.91% during FY19 (FY18: 3.48%) and PAT margin of 1.47% in FY19 (FY18: 0.80%) on account of increased manufacturing sales post completion of its capacity expansion for cotton bales in Nov-17. As per provisional results, the firm reported net sales of Rs.102 crore till January 23, 2020.

##### **Leveraged capital structure and weak debt coverage indicators**

The overall gearing moderated to 4.34 times as on March 31, 2019 as compared to previous 4.02 times as on March 31, 2018 as a result of increase in unsecured loans. Debt coverage indicators continued to remain weak, however, improved during FY19 as a result of better PBILDT and gross cash accruals marked by PBILDT interest coverage of 2.04 times (PY: 1.59 times) and TDGCA of 11.23 times (PY: 22.88 times).

##### **Seasonal procurement resulting working capital intensive nature of operations**

Cotton being an agro commodity, its production is seasonal in nature and the cotton ginners usually have to procure raw cotton in bulk to bargain better discount from the suppliers. Hence, there is significant requirement for working capital funds especially during the peak season towards stocking of inventory as the procurement is made directly from farmers on cash basis. The funding requirements are met either through bank borrowings or through unsecured loans from the promoters and results in high leverage.

The firm's operating cycle has improved to 79 days in FY19 as compared to 99 days in FY18. The current and quick ratio stands to 1.26 times and 0.37 times respectively as on March 31, 2018.

##### **Presence in a highly fragmented cotton ginning industry with susceptibility of profitability to fluctuation in cotton prices**

Cotton ginning business involves very limited value addition and is dominated by small and medium scale units, resulting in high fragmentation and limited pricing power by the players. Furthermore, price of raw cotton is highly volatile in nature and depends upon factors such as area under production, yield for the year, international demand supply scenario, export quota decided by the government and inventory carried forward from last year. Thus, restricts pricing power along with volatile cotton prices, results in restricted profitability of the players.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

\*Issuer did not cooperate; Based on best available information

### ***Proprietorship nature of constitution***

Being a Proprietorship nature of constitution, AAI is susceptible to risk associated with withdrawal / transfer of capital by the proprietor which may lead to deterioration in the entity's capital structure and limit the financial flexibility of the entity. During FY19, there was net drawl of profit worth Rs.1.90 crore from capital and increase in unsecured loans by Rs.3.85 crore.

### **Key Rating Strengths**

#### ***Experienced of the proprietor in the cotton ginning business with integration into cotton seed oil***

The proprietor, Mr. Ramswaroop Agrawal has an experience of over three decades in the business of cotton ginning and processing, trading of pulses and cotton. The entity benefits from the extensive experience of proprietor and his understanding of dynamics of local market. Apart from ginning cotton, AAI also engaged in cotton seed oil extraction unit at Bhikangaon.

#### ***Location advantage for the procurement of raw cotton***

Gujarat, Maharashtra, Andhra Pradesh, Haryana, Madhya Pradesh and Tamil Nadu are the major cotton producer's states in India. AAI's manufacturing facilities located at Bhikangaon district of Madhya Pradesh, which is in vicinity to the cotton-producing belt in central India. AAI majorly procures cotton from farmers in surrounding locality and through APMC. Hence, AAI's presence in the cotton producing region results in benefit derived from lower logistic expenditure (both on transportation and storage) along with easy availability and procurement of raw materials at effective prices.

### **Analytical approach: Standalone**

#### **Applicable Criteria**

[CARE's policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

#### **About the Firm**

Incorporated as proprietorship concern by Mr. Ramswaroop Agrawal in 2008, Anant Agro Industries (AAI) is engaged in cotton ginning and pressing with installed capacity of 750 bales per days and cotton seed crushing manufacturing unit is located at Bhikangaon, Madhya Pradesh. The entity is primarily engaged in the manufacturing of Cotton bales, oil and oil cakes from cotton seeds, sells packaged and graded wheat and trading of cotton and agro commodities like other agro based commodities chana, wheat, moong, soyabean and makka.

<b>Brief Financials (Rs. Crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	98.27	145.13
PBILDT	3.42	5.67
PAT	0.79	2.13
Overall gearing (times)	4.02	4.34
Interest coverage (times)	1.59	2.04

A: Audited

**Status of non-cooperation with previous CRA:** CRISIL has continued its rating on AAI under 'Issuer Not Cooperating' category vide its press release dated August 05, 2019 on account of its inability to carry out rating exercise in the absence of requisite information from the company.

**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	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

## 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	LT	-	-	-	1)CARE BB-; Stable (01-Mar-19)	1)CARE BB-; Stable (28-Feb-18)	-
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB-; Stable (01-Mar-19)	1)CARE BB-; Stable (28-Feb-18)	-

**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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