

Anik Industries Limited

February 18, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long term Bank Facilities	65.00	CARE BB+ (Double B Plus) (Credit watch with negative implications)	Ratings placed on credit watch with negative implications
Short term Bank Facilities	175.00	CARE A4 (A Four) (Credit watch with negative implications)	Ratings placed on credit watch with negative implications
Total facilities	240.00 (Rupees Two Hundred Forty Crore only)		

Details of instruments / facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Anik Industries Limited (AIL) on "Credit Watch with Negative Implications" in view of consistent delay in publication of quarterly results by the company within the stipulated timeframe. Further, AIL has not submitted 'No Default' declaration for the past two months ended December 2018 and January 2019. Also, there has been significant drop in its share price during recent past. CARE will take a view on the ratings of the company once clarity on the above mentioned issues along with their exact implications on the credit risk profile of the company is received.

Further, the ratings also take into cognizance of decline in its already thin profitability during H1FY19 (refers to the period April 01 to September 30) with increased finance costs related to elevated working capital borrowings; along with increase in investments in the real estate segment during the aforesaid period, thus resulting in moderate liquidity.

The ratings continue to be constrained by risks associated with volatile commodity prices and fluctuating forex rates in its trading business, project completion and salability risk associated with its real estate projects and its presence in cyclical & competitive real estate industry.

The ratings, however, continues to derive strength from the experienced promoters in the commodity trading business and comfortable gearing. The ratings further continue to favourably factor the healthy booking status of the on-going residential project 'One Rajarhat' in Kolkata.

The ability of AIL to increase its scale of operations, improve its capital structure and profitability while operating in the volatile commodity trading segment by employing prudent hedging practices and timely completion of the real estate projects alongwith booking of the units at the envisaged price are the key rating sensitivities. This apart, extent of investments in associates / group entities and its source of funding shall also remain a key rating monitorable.

Detailed description of the key rating drivers

AIL has been consistently delaying the publication of its quarterly results as per the stipulated timeframe over the past one year. Recently also, the publication of Q3FY19 results has been announced to be delayed by seven days and is yet to be published. Further, in the absence of non-submission of 'No Default' declaration, CARE could also not verify the regularity of the debt servicing of the company.

Clarity on the abovementioned issues is awaited to assess exact implications on the credit risk profile of the company.

Key Rating Weaknesses

Moderate scale of operations along and thin profitability with a dip in H2FY19: Post sale of its dairy business segment in September 2016, AIL now primarily operates into two segments: commodity trading and real estate.

AIL has a moderate scale of operations with a TOI of around Rs.263.59 crore in H1FY19 (Rs.263.31 crore in H1FY18), which was largely registered from its trading business. With effect from April 01, 2018, the company has discontinued booking income from its real estate segment as per IND-AS accounting.

Profitability remains thin as inherent in the trading business; as indicated by a PBILDT margin of around 2-3%. Furthermore, with increase in interest costs during H1FY19 on account of elevated working capital borrowings (including short term loans; largely utilised to pay-off the creditors), PAT margin in H2FY19 dipped to a meagre of around 0.36% respectively.

Increase in investments and moderate liquidity: Apart from the real estate project on its own books, the company has also invested in the real estate projects of its subsidiaries / associate entities, the amount of which has increased over last

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

two years. Thus, low profitability and sizeable investments has resulted in a moderate liquidity. As on September 30, 2018, the company had a free cash and bank balance of around Rs.7 crore as against cash and bank balance of over Rs.15 crore as on March 31, 2017; however the company has not utilised its cash credit limits for last few months ended November 2018.

Susceptibility of profitability to volatile raw material prices and foreign exchange fluctuation: The profitability of AIL is susceptible to volatility in the agro commodity prices and exchange rate fluctuations on imports. The prices of the traded products (such as soya seeds, edible oils and palm oil) have depicted volatility and are also subject to actions by various government instrumentalities.

Risk inherent to real estate sector: The real estate sector in India is highly fragmented with most of the real estate developers having a city-specific or region specific presence. The sector faces issues on various fronts such as subdued demand, floating interest rates, curtailed funding options, rising costs and restricted supply due to delays in approvals; thereby resulting in stress on cash flows.

Thus, the company remains exposed to risks associated with timely completion of the real estate projects undertaken on its own books and by its associated entities; in light of high competition in the segment and sizeable debt drawn for project completion.

Key Rating Strengths

Experienced promoters: The promoters of AIL have over three decades of experience in commodity trading. Mr. Manish Sahara, the joint managing director, has an experience of more than two decades of trading in agro-based commodities.

Comfortable leverage: The overall gearing stood comfortable at around 0.69x as on September 30, 2018 (0.66 times as on March 31, 2018 and 0.61 times as on March 31, 2017). However, the company has been sanctioned sizeable term loan for its real estate project, which may result in gradual elevation in debt levels.

Healthy advance booking from the real estate project: As on June 30, 2018, AIL has received a booking confirmation for approximately 50% (153 flats) of the total units under construction, for its Kolkata project. Till June 30, 2018, AIL had received Rs.87.25 Crore toward booking advance from its customers, which is over 50% of the sales price of the booked units.

Analytical approach: Standalone

Applicable Criteria

[Criteria for placing ratings on Credit Watch](#)

[Criteria on assigning outlook to credit ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's policy on default recognition](#)

[Rating Methodology – Wholesale trading](#)

[Financial Ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1976, AIL is presently engaged in commodity trading and real-estate development, after sale of its dairy business segment in September 2016.

It trades in agro commodities such as edible oils, soya bean, wheat and other commodities such as coal, and also imports crude palm oil and resells the same in bulk after getting it refined through third party refineries.

In the real estate segment, AIL is developing a 'residential real estate project' in Kolkata, which is expected to be completed by December 2020.

Brief Financials of AIL

Particulars (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	495.80	613.81
PBILDT	-92.19	8.48
PAT	36.39	13.84
Overall gearing (times)	0.61	0.66
Interest coverage (times)	NM	0.68

A: Audited; NM: Not meaningful

The company has registered an income of Rs.263.59 Crore in H1FY19.

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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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
Term Loan-Long Term	-	-	March 2019	50.00	CARE BB+ (Under Credit watch with Negative Implications)
Fund-based-Long Term	-	-	-	15.00	CARE BB+ (Under Credit watch with Negative Implications)
Non-fund-based-Short Term	-	-	-	165.00	CARE A4 (Under Credit watch with Negative Implications)
Term Loan-Short Term	-	-	-	10.00	CARE A4 (Under Credit watch with Negative Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	50.00	CARE BB+ (Under Credit watch with Negative Implications)	1)CARE BB+; Stable (06-Apr-18)	-	1)CARE BB+; Stable (29-Mar-17) 2)CARE BBB- (Under Credit Watch) (26-May-16)	1)CARE BBB- (24-Dec-15) 2)CARE BBB- (02-Nov-15)
2.	Fund-based-Long Term	LT	15.00	CARE BB+ (Under Credit watch with Negative Implications)	1)CARE BB+; Stable (06-Apr-18)	-	1)CARE BB+; Stable (29-Mar-17) 2)CARE BBB- (Under Credit Watch) (26-May-16)	1)CARE BBB- (24-Dec-15) 2)CARE BBB- (02-Nov-15)
3.	Non-fund-based-Short Term	ST	165.00	CARE A4 (Under Credit watch with Negative Implications)	1)CARE A4 (06-Apr-18)	-	1)CARE A4 (29-Mar-17) 2)CARE A3 (Under Credit Watch) (26-May-16)	1)CARE A3 (24-Dec-15) 2)CARE A3 (02-Nov-15)
4.	Term Loan-Short Term	ST	10.00	CARE A4 (Under Credit watch with Negative Implications)	1)CARE A4 (06-Apr-18)	-	1)CARE A4 (29-Mar-17) 2)CARE A3 (Under Credit Watch) (26-May-16)	1)CARE A3 (24-Dec-15) 2)CARE A3 (02-Nov-15)

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