Anik Industries Ltd

March 29, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	94.00 (reduced from 182.70)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB- (Triple B Minus) (Credit Watch)**
Short term Bank Facilities	175.00 (reduced from 543.65)	**CARE A4 (A Four)**	**Revised from CARE A3 (A Three) (Credit Watch)**
Total facilities	**269.00 (Rupees Two Hundred Sixty Nine crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Anik Industries Ltd (AIL) were placed under 'credit watch' on account of the proposed sale and transfer of its dairy business. The sale transaction was effected in September 2016 and with emergence of clarity of its impact on the credit profile of AIL; the credit watch has been removed.

Simultaneously, the ratings have been revised on account of sale of its established dairy business along with significant amount of losses in dairy business during H1FY17 (FY refers to the period April 1 to March 31) including large debtors write-off, losses in trading business and significant incremental investments in the cyclical real estate projects which are presently at nascent stage of development.

The rating is further constrained by risks associated with volatile commodity prices and forex rates inherent in its continuing trading business, working capital intensive nature of trading operations and risks associated with real estate development activities with project completion and salability risks associated with its two real estate projects which are in their nascent stages of development, owing to the cyclical and competitive real estate industry.

The aforesaid rating constraints far off-set the experience of AIL's promoters in commodity trading business and reduction in debt levels of the company.

AIL's ability to increase its scale of operations and improve its profitability while operating in the volatile commodity trading segment by employing prudent hedging practices, alongwith timely booking of new units in its real estate projects shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Sale of established dairy business which had a track record of steady cash generation; and consequent reduction in AIL's total operating income along with losses in dairy business during 5MFY17: In September 2016, AIL sold its dairy business which was the major contributor to its revenue, which resulted in a dip in its total operating income (TOI) from Rs.1,500 crore in FY16 to around Rs.322 crore in 9MFY17 and is also likely to adversely impact the company's profitability due to inherent low profitability in its continuing trading business as compared to relatively steadier cash flows in the dairy business. Further, AIL incurred a loss of around Rs.133.46 crore during the five months of operations of its discontinued dairy business in FY17, comprising write-off of debtors of Rs.95 crore and operational losses of Rs.38.46 crore.

Exposure to volatile commodity trading business with losses incurred in 9MFY17: Commodity trading business has inherent low profitability due to limited value addition and is exposed to risks associated with volatile commodity prices and forex rates. During 9MFY17, AIL registered loss of Rs.16.88 crore at PBIT level in its commodity trading business due to lower sales realization from sale of imported steel. AIL has however discontinued trading in this category of steel.

Project completion and salability risks in cyclical real estate sector where its exposure has increased: AIL has commenced construction of a residential real estate project in Kolkata in its own books and has also invested equity in a hospitality-cum-residential project in Kolkata. Both the projects are in their nascent stage of development and hence AIL remains exposed to project completion and salability risks, with the industry exposed to cyclicality associated with economic downturns and to competition.

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

Key Rating Strengths

Promoters experience in commodity trading: Promoters of AIL have over three decades of experience in commodity trading.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[Criteria for Short Term Instruments](#)
[Criteria for placing rating on credit watch](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for manufacturing companies](#)
[CARE's methodology for 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 in September 2016.
Mr. Kailash Shahra, Chairman of Ruchi Soya Industries Ltd, was the Chairman of AIL till March 2016. Subsequently, he resigned from the Chairmanship of AIL and Mr. Suresh Chandra Shahra is now the Chairman and MD of AIL. Furthermore, now there are no common directors between AIL and other major Ruchi Group companies.
The dairy business used to contribute around 70-80% of its total operating income while commodity trading business contributed the balance 20-30%. In September 2016, the company sold its entire dairy business to M/s. B. S. A. International, Belgium for a consideration of Rs.449.37 crore.
The company also has a wind power generation capacity of 1.85 megawatt (MW) at its plants at Jaisalmer in Rajasthan and Dewas, albeit contribution of this segment to AIL's income is miniscule.

As per the audited results for FY16, AIL registered a TOI of Rs.254.45 crore with a profit after tax and discontinuing operations of Rs.5.58 crore, as against a TOI of Rs.476.26 crore with a profit after tax and discontinuing operations of Rs.10.31 crore in FY15.
During 9MFY17, AIL registered a TOI of Rs.322.65 crore from its trading and wind power generation business with loss of Rs.16.88 crore in the trading business at PBIT level, resulting in overall PBIT loss of Rs.16.23 crore. Further, it incurred a loss at PBIT level of Rs.23.37 crore on a TOI of Rs.239.86 crore from its discontinued dairy business during 9MFY17. This apart, it also incurred loss of Rs.62.34 crore from unallocable segment, which could mainly be attributed to dairy sale deal expenses.

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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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	-	-	September 2020	69.00	CARE BB+; Stable
Fund-based-Long Term	-	-	-	25.00	CARE BB+; Stable
Non-fund-based-Short Term	-	-	-	155.00	CARE A4
Term Loan-Short Term (Proposed Working capital loan)	-	-	-	20.00	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Term Loan-Long Term	LT	69.00	CARE BB+; Stable	1)CARE BBB- (Under Credit Watch) (26-May-16)	1)CARE BBB- (24-Dec-15) 2)CARE BBB- (02-Nov-15)	1)CARE BBB (20-Feb-15) 2)CARE BBB (29-Sep-14)	1)CARE BBB (10-Feb-14)
2.	Fund-based-Long Term	LT	25.00	CARE BB+; Stable	1)CARE BBB- (Under Credit Watch) (26-May-16)	1)CARE BBB- (24-Dec-15) 2)CARE BBB- (02-Nov-15)	1)CARE BBB (20-Feb-15) 2)CARE BBB (29-Sep-14)	1)CARE BBB (10-Feb-14)
3.	Non-fund-based-Short Term	ST	155.00	CARE A4	1)CARE A3 (Under Credit Watch) (26-May-16)	1)CARE A3 (24-Dec-15) 2)CARE A3 (02-Nov-15)	1)CARE A3+ (20-Feb-15) 2)CARE A3+ (29-Sep-14)	1)CARE A3+ (10-Feb-14)
4.	Term Loan-Short Term (Proposed Working capital loan)	ST	20.00	CARE A4	1)CARE A3 (Under Credit Watch) (26-May-16)	1)CARE A3 (24-Dec-15) 2)CARE A3 (02-Nov-15)	1)CARE A3+ (20-Feb-15) 2)CARE A3+ (29-Sep-14)	1)CARE A3+ (10-Feb-14)

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CIN - L67190MH1993PLC071691