

Ashutosh Chawal Udyog

July 03, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	32.16 (Enhanced from Rs.17.78 crore)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed and Non Cooperation revoked
Total	32.16 (Rupees Thirty-Two crore and Sixteen lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ashutosh Chawal Udyog (ACU) continue to remain constrained on account of its financial risk profile marked by modest scale of operations along with low profitability margins and weak solvency position. The rating, further, continues to remain constrained on account of its stretched liquidity position and fragmented nature of industry and low entry barriers.

The rating, however, continues to draw strength from experienced management and established track record of operations and proximity to paddy growing region.

Rating Sensitivities

Positive factor:

- Sizeable increase in scale of operations from present level (Total Operating Income above Rs.100 crore) of the entity on a sustainable basis.
- Improvement in capital structure with overall gearing ratio improving to below 2.50 times on a sustainable basis and improvement in debt coverage indicators below 15.00 times.

Negative Factors

- Any sizeable de-growth in scale of operations from present level and deterioration in profitability margins PBILDT margin below 3.00%.
- Elongation in working capital cycle to beyond 150 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with low profitability margins

The scale of operation of ACU has increased by 44.52% in FY19 as against FY18 and stood at Rs.91.90 crore on account of higher sales volume, however, as per FY20 provisional the TOI of the firm has declined and stood at Rs.70.15 crore mainly due to lower sale realization and closer of unit for 12 days in March 2020 due to COVID-19.

Further, the firm has resumed its operation from April 01, 2020 and during two months till May 31, 2020 it has registered TOI of Rs.18.00 crore.

Furthermore, the operating profitability of the firm has dipped over previous year and remained low as marked by PBILDT margin of 3.49% during FY19 as against 4.53% during FY18 mainly on account of increase in raw material cost. Further, due to higher amount of depreciation and interest costs during the year, ACU has reported low PAT margins of 0.42% during FY19 as against 0.50% during FY18. However, GCA level of the firm has also improved by 11.61% in FY19 and stood at Rs.1.12 crore.

Weak solvency position

The capital structure stood leveraged marked by overall gearing of 4.51 times as on March 31, 2019 deteriorated from 2.71 times as on March 31, 2018 mainly due to decrease in net worth base owing to withdrawal capital as well as higher utilization of working capital limits and increase in unsecured loans. Further, the debt coverage indicators also stood weak marked by total debt to GCA of 22.39 times as on March 31, 2019 deteriorated from 17.38 times as on March 31, 2018 mainly due to higher increase in total debt than GCA level. Further, interest coverage also stood moderate and remained stable at 1.80 times in FY19 (1.78 times in FY18).

Fragmented nature of industry and low entry barriers

The rice milling business requires limited quantum of investment in machinery, however, has high working capital needs. Further, rice milling is not very technology intensive and as a consequence the industry is highly fragmented with large number of players operating in the organized and unorganized segments. The high level of competition has ensured limiting bargaining power, as a consequence of which rice mills are operating at low to moderate profitability margins.

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

Key Rating Strength

Experienced management

The overall affairs of the firm are managed by Mr. Satya Narayan Jajoo and Mr. Narendra Jajoo. Further, Mr. S.N. Jajoo has more than two decades of work experience in the industry and looks after sales & marketing and finance function of the firm. Mr. Narendra Jajoo has more than 15 years of work experience in the industry and looks after production function of the firm.

Established track record of operations and proximity to paddy growing region

Being present in the industry since last three decades, ACU has established its relationship with its customers. The firm mainly sells basmati rice in domestic market mainly in Rajasthan, Madhya Pradesh, Gujarat, Maharashtra and Delhi. It also sells basmati rice to export houses who subsequently export to other countries. Further, the rice mill of the firm is located in Bundi which falls in Chambal Command Area of Rajasthan and Madhya Pradesh. Hence, its presence in this area ensures easy raw material access and smooth supply of raw materials at competitive prices and lower logistic and storage cost.

Liquidity: Stretched

The liquidity position of the firm stood stretched marked by elongated operating cycle of 93 days in FY19, however, improved from 113 days in FY18 owing to decrease in average inventory period as well as collection period. Further, it has utilized average 60% of its working capital bank borrowings during past twelve months ended May 2020. Further, the current ratio stood moderate at 1.39 times as on March 31, 2019 while quick ratio stood below unity due to high inventory. Further the cash from operating activities stood negative in FY19 as against positive cash flow in FY18. The company has envisaged the GCA level of Rs.1.07 crore in FY21 against the Rs.0.60 crore of debt repayments in FY21. It has low cash and bank balance of Rs.0.02 crore as on March 31, 2019.

CARE also takes cognizance the impact of Covid-19 on the business and liquidity position of the firm. The firm has shut down its plants located in Bundi, Rajasthan on March 20, 2020. Further, it has again resumed its operations from April 01, 2020.

Analytical approach: Standalone

Applicable Criteria

[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

Bundi (Rajasthan) based Ashutosh Chawal Udyog (ACU) was formed in 1981 as a proprietorship concern by Mr. Chouthmal Maheshwari for carrying out the business of trading and processing of paddy to produce rice. However, due to death of the proprietor in February 2013, the constitution of the firm was changed to partnership. Currently, there are four partners in the firm viz. Mr. Vijendra Kumar Maheshwari, Mr. Satya Narayan Jajoo, Mr. Chetanya Kumar Jajoo and Mr. Narendra Kumar Jajoo sharing profit and loss equally. Its rice mill is located in Bundi. The firm sells rice under the brand name of 'Double Katar' and 'Basant Bahar'. Further, the firm also sells by-products of rice viz. husk and rice bran.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	63.59	91.90
PBILDT	2.88	3.21
PAT	0.32	0.38
Overall gearing (times)	2.71	4.51
Interest coverage (times)	1.78	1.80

*A: Audited

Status of non-cooperation with previous CRA: None.

Any other information: None

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	-	-	-	11.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	September 2024	1.16	CARE BB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	20.00	CARE BB-; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	11.00	CARE BB-; Stable	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE BB-; Stable (04-Mar-19)	1)CARE BB-; Stable (30-Jan-18)
2.	Fund-based - LT-Term Loan	LT	1.16	CARE BB-; Stable	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE BB-; Stable (04-Mar-19)	-
3.	Fund-based - LT-Working Capital Limits	LT	20.00	CARE BB-; Stable	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE BB-; Stable (04-Mar-19)	-

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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