

J.V Agro Exports

August 27, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	9.64	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Facilities	9.64 (Rupees Nine crore and Sixty Four lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rational and key rating drivers

The rating assigned to the bank facilities of J.V Agro Exports (JVA) continues to remain constrained by small scale of operations with low PAT margin and weak capital structure. The rating is also constrained by raw material price fluctuation risk, firm's presence in highly competitive and fragmented nature of industry and partnership nature of constitution. The rating, however, derives strength from experienced partners and locational advantages.

Going forward, the ability of the firm to increase its scale of operations profitably while improving its capital structure and managing its working capital requirements shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with low PAT margin

The scale of operations of the firm stood small marked by total operating income of Rs.20.87 crore in FY19 (Prov.). The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits.

The PBILDT margin stood moderate at 11.79% in FY19 (Prov.). However, the PAT margin stood low at 0.37% in FY19 (Prov.) owing to high interest and depreciation expenses.

Weak capital structure

The capital structure of the firm stood leveraged as reflected by overall gearing ratio of 5.47x as on March 31, 2019 (Prov.) on account of term loan taken in FY19 for setting up the plant and higher utilization of the working capital limit as on balance sheet date.

Susceptibility to fluctuation in raw material prices and monsoon dependent operations

Agro-based industry is characterized by its seasonality, as it is dependent on the availability of raw materials, which further varies with different harvesting periods. Availability and prices of agro commodities are highly dependent on the climatic conditions. Adverse climatic conditions can affect their availability and leads to volatility in raw material prices. Also, there is a long time lag between raw material procurement and liquidation of inventory, the firm is exposed to the risk of adverse price movement resulting in lower realization than expected.

Fragmented nature of industry coupled with high level of government regulation

The commodity nature of the product makes the industry highly fragmented with numerous players operating in the unorganized sector with very less product differentiation. There are several small scale operators which are not into end-to-end processing of rice from paddy, instead they merely complete a small fraction of processing and dispose-off semi-processed rice to other big rice millers for further processing. Furthermore, the raw material (paddy) prices are regulated by government to safeguard the interest of farmers, which in turn limits the bargaining power of the rice millers.

Partnership nature of constitution

JVA's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners.

Key Rating Strengths

Experienced partners

JVA is currently being managed by Mr. Deepak Goel and Mr. Sahil Kadyan. Mr. Deepak Goel has an industry experience of one decade through his association with other group concerns and other regional entities. Furthermore, the partners are supported by experienced team having varied experience in the field of marketing and finance aspects of business.

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

Location advantages

JVA will be engaged in processing of paddy and will also be engaged in grading, sorting & packaging of rice. The firm's processing facility is situated at District Karnal, Haryana which is one of the hubs of processing of paddy in India. The firm benefits from the location advantage in terms of easy accessibility to large customer base. Additionally, various raw materials required is readily available owing to established supplier base in the same location as well

Analytical Approach—Standalone**Applicable criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for manufacturing companies](#)

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

Stretched liquidity position

The average operating cycle of the firm stood comfortable at 34 days for FY19 (Prov.). The average utilization of working capital limit stood fully utilized for the past 12 months period ending July, 2019. The liquidity position of the firm stood moderate marked by current ratio of 1.05x and quick ratio of 0.37x, as on March 31, 2019.

About the firm

J.V Agro Exports (JVA) was established as a partnership firm in December 2017 by Mr. Deepak Goel and Mr. Sahil Kadyan sharing profit and loss equally. JVA is engaged in manufacturing and trading of rice, rice bran, husk and phak at its facility located at District Karnal, Haryana with installed capacity of 42,000 tonne of rice per annum. The commercial operations of the unit commenced in November, 2018. JVA sells rice primarily to various rice wholesalers based in Delhi, Haryana, Punjab, etc. The raw material, primarily paddy, is procured from the local grain market. Besides this, one of the partners is also engaged in another group concerns namely New Goel Pesticides & Fertilizers and Real Agro Foods. New Goel Pesticides & Fertilizers is a partnership firm engaged in commission agent business of pesticides & fertilizers since 2011. Real Agro Foods is a partnership firm engaged in similar business of processing of paddy since 2011.

Brief Financials (Rs. crore)	FY19 (P); 5 months
Total operating income	20.87
PBILDT	2.46
PAT	0.08
Overall gearing (times)	5.47
Interest coverage (times)	3.38

P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Term Loan	-	-	January, 2025	7.14	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	2.50	CARE B+; 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 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-Term Loan	LT	7.14	CARE B+; Stable	-	1)CARE B+; Stable (10-Dec-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	2.50	CARE B+; Stable	-	1)CARE B+; Stable (10-Dec-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

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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