Rohit Agro Seeds Sales Corporation

October 24, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings[2]	Rating Action
Long Term Bank Facilities	4.50	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Assigned**
Short term Bank Facilities	5.00	**CARE A4 (A Four)**	**Assigned**
Total facilities	**9.50 (Rupees Nine crore and Fifty lakh only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rohit Agro Seeds Corporation are primarily constrained on account of modest scale of operation with thin profitability margins, moderate capital structure with weak debt coverage indicators and stretched liquidity position. The rating is further constrained on account of seasonality associated with agro commodities and presence in highly fragmented and government regulated industry and constitution as a proprietorship concern.

The ratings, however, favorably take into account of experienced management with long track record of operations.

Rating Sensitivities

Positive Factors:

- Increase in the Total Operating Income beyond Rs.70.00 crore along with continuous sustained in its PBILDT margin
- Efficient management of working capital with improvement in capital structure less than 3 times and debt coverage indicators less than 10 times

Negative Factors:

- Stability in profitability margins with managing of fluctuations in raw material prices
- Deterioration of solvency position owing to any debt funded project undertaken by the firm and withdrawal of capital by the proprietor

Detailed description of the key rating drivers

Key Rating Weakness

Modest scale of operations with thin profitability margins

Total Operating Income (TOI) of the firm has witnessed fluctuating trend from last three financial years ended FY19 with scale of operation stood modest at Rs.26.99 crore as on March 31, 2019. TOI of the firm has increased around 32.23% over FY18 on account of higher order received from customers and added new customers in domestic market. The profitability margin of the firm has declined and stood thin with PBILDT margin and PAT margin of 3.46% and 0.82% respectively during FY19 as against 5.56% and 2.69% during FY18. PBILDT margin declined by 287 bps due to higher cost of material consumed. Further, with decline in PBILDT margin PAT margin has also declined by 19 bps although lower in quantum as PBILDT declines on account of lower interest expenses.

Moderately leveraged capital structure with weak debt coverage indicators

The capital structure of the firm stood moderately leveraged marked by overall gearing of 3.13 times as on March 31, 2019. Further, debt coverage of the firm stood weak marked by total debt to GCA of 31.08 times as on March 31, 2019, improved from 34.37 times as on March 31, 2018 due to marginally increase in GCA level as well as marginally decline total debt level. Interest coverage ratio of the company stood moderate at 1.55 times as on March 31, 2019, improved from 1.31 times as on March 31, 2018 due to proportionately higher decline in interest expenses as compare to decline in PBILDT margin.

Seasonality associated with agro commodities and presence in highly fragmented and government regulated industry and constitution as a proprietorship concern

As the firm is engaged in the processing of agriculture commodities, the prices of agriculture commodities remained fluctuating and depend on production yield, demand of the commodities and vagaries of weather. Hence, profitability of the RASSC is exposed to vulnerability in prices of agriculture commodities. The entry barriers in this industry are very low on account of low capital investment and technological requirement. Due to this, the players in the industry do not have any pricing power. Furthermore, the industry is characterized by high degree of government control both in procurement and sales for agriculture commodities. Government of India (GoI) decides the Minimum Support Price (MSP) payable to farmers.

Constitution as a proprietorship concern with moderate net worth base restricts its overall financial flexibility in terms of limited access to external fund for any future expansion plans. Furthermore, there is an inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of proprietor.

Liquidity: Stretched

It has utilized 50-55% of its working capital bank borrowings during past 12 months ending September 30, 2019. The working capital cycle of the company stood elongated at 147 days in FY19, although operating cycle has improved from 203 days in FY18 due to decline in inventory holding. During FY19, the current ratio stood moderate at 1.25 times and quick ratio stood below unity at 0.35 times. Further it has cash and bank balance of Rs.2.67 crore as on March 31, 2019. The company has projected cash accrual of Rs.0.39 crore in FY20 as against total debt repayment of Rs.0.04 crore.

Key Rating Strengths

Experienced Management with long track record of operations

Mr Rohit Jain, proprietor, is MBA (Marketing) by qualification and has around 18 years of experience in same line of industry. The long standing experience and in-depth knowledge in agro commodity industry of Mr Rohit Jain has benefited the firm and has able to establish customer base in the market. Further, the proprietor is assisted by second tier management who has vast experience in their respective fields.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Methodology for Manufacturing Companies
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

Background of the Firm

Ujjain (Madhya Pradesh) based Rohit Agro Seeds Sales Corporation (RASSC) was formed in 2004 by Mr Rohit Jain as a proprietorship concern. RASSC is engaged in the business of production and processing of seeds i.e. soyabean, wheat and gram seeds. The plant of the firm is located at Ujjain with an installed capacity of 90 Tonnes per day for processing of seeds. RASSC procures raw material from farmers in Madhya Pradesh and sell its products in domestic market in Maharashtra, Gujarat, Rajasthan, Madhya Pradesh and Uttar Pradesh.

Brief Financials (Rs. crore)	FY18(A)	FY19(P)
Total operating income	20.41	26.99
PBILDT	1.29	0.93
PAT	0.20	0.22
Overall gearing (times)	3.81	3.13
Interest coverage (times)	1.31	1.55

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

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	-	-	-	4.50	CARE B+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	5.00	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 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	4.50	CARE B+; Stable	-	-	-	-
2.	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A4	-	-	-	-

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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