Unique Organics Limited

Jul 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[2]	Rating Action
Long Term Bank Facilities	6.00	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Assigned**
Short Term Bank Facilities	6.00	**CARE A4 (A Four)**	**Assigned**
Total facilities	**12.00 (Rupees Twelve crore only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Unique Organics Limited (UOL) are primarily constrained on account of its fluctuating and modest scale of operations with moderate profitability margins, stretched liquidity position and customer concentration risk in a highly competitive and fragmented industry and profitability being susceptible to volatility of raw material prices and foreign exchange rate fluctuations.

The ratings, however, favorably take into account experienced promoters and long track record of operations of entity of more than two and half decades, favorable outlook of Indian cattle feed market and comfortable capital structure albeit moderate debt coverage indicators.

The ability of the company to increase its scale of operations and profitability margins with improvement in debt coverage indicators and better management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Fluctuating and modest scale of operations with moderate profitability margins

Total Operating Income (TOI) of the company has witnessed fluctuating trend in last three financial years ended FY19. In the past, TOI stood more than Rs.100 crore till FY16 and after than TOI has dipped significantly owing to failure of the domestic buyer. During FY19, TOI has declined by 24.67% over FY18 due to high focus on sale of high margin organic products.

Due to higher focus on sale of high margin organic products, PBILDT margin has improved by 247 bps in FY19 over FY18. Further, during FY19, it has write off debtors of Rs.2.12 crore. With improvement in PBILDT margin, PAT margin has also improved by 145 bps in FY19 over FY18, however, lower in quantum as against increase in PBILDT margin owing to proportionate higher interest cost as a percentage of TOI. During FY19, profitability margin of the company stood moderate marked by PBILDT and PAT margin of 5.29% and 2.24% respectively. During FY19, GCA level of the company has improved from Rs.0.38 crore in FY18 to Rs.0.65 crore.

Stretched liquidity position

The operations of the company are working capital intensive nature of operations with moderate operating cycle of 179 days in FY19 owing to higher receivables period of 179 days. Out of total receivables of 15.33 crore, Rs.9.68 crore are more than six months which are pending from domestic clients. It has 50-60% of average utilization of its working capital bank borrowings during past 12 months ended May 31, 2019. On account of high debtors, the current ratio and quick ratio stood moderate at 2.46 times and 2.31 times respectively as on March 31, 2019. Further it has cash and bank balance of Rs.0.01 crore as on March 31, 2019. It has generated cash flow from operating activities of Rs.0.49 crore in FY19.

Customer concentration risk in a highly competitive and fragmented industry and profitability being susceptible to volatility of raw material prices and foreign exchange rate

It has generated 62.56% from top four customers in FY19 and hence, reflecting high customer concentration risk in a highly competitive industry. Intense competition from several unorganised players in the animal feed exports business limits negotiating power with customers and prevents passing complete hike in input rates of them.

The key raw materials of the entity are agro products like bajra, maize, soya (de oiled cake), etc. These materials are available domestically and the entity is expected to procure the same through farmers and distributors in the region. Due to highly competitive nature of business, UOL faces difficulty in passing on any increase in the cost of raw material to its customers. Furthermore, since these commodities are of seasonal in nature, the availability of the same is affected by factors such as changes in weather conditions, low or high rainfall, production levels, etc. Maize is the primary source of energy of the feed, whereas soybean is the primary source of protein and of the feed. Maize is relatively a small crop in India and being a rain-fed crop, any failure in monsoon will affect its harvest. In case of soybean, although there is adequate availability, its prices remain volatile on account of movement in global prices and production and monsoon. Though there are substitutes for

these such as maize gluten, rapeseed meal etc., their nutrient output and correspondingly the feed conversion ratio (FCR) varies accordingly.
Further, profitability of the company is highly susceptible to fluctuation in exchange rates as the company drives 67.72% of net sales from exports and it does not follow any active hedging policy.

Key Rating Strengths
Experienced promoters and long track record of operations of entity of more than two and half decades
Mr Jyoti Prakash Kanodia, Managing Director, is graduate by qualification and has more than three decade of experience in the same line of business. He looks after overall affairs of the company and is assisted by Ms Madhu Kanodia, director, who looks after production and marketing function of the company. Mr Harish Panwar, qualification by post graduate, has more than 11 years of experience in finance function and look finance function of the company. Further, the directors are assisted by second tier management who has vast experience in their respective fields. Being present in the industry since 1993, the company has established relations with various large corporates and the same is reflected from the repeated orders from them.

Favourable outlook of Indian cattle feed market
Cattle Feed industry in India is about 50 years old. It primarily consists of cattle feed and poultry feed segments. Cattle feed industry in India is gradually evolving into an organized sector and the feed manufactures are increasingly using modern and sophisticated methods that seek to incorporate best global practices. Indian cattle feed industry has got high growth potential, given the country's top position among the world nations in respect of livestock population. Compounded Cattle Feed (CCF) products, particularly the branded ones are fast gaining popularity India, including in rural areas.

Comfortable capital structure albeit moderate debt coverage indicators
The company does not have any long-term debt and debt consists of only working capital bank borrowings which it has utilization of around 50-60% average utilization during last 12 months ending May 2019. Due to low working capital utilization and moderate net-worth base of Rs.12.25 crore as on march 31, 2019, the capital structure of the company stood comfortable marked by overall gearing of 0.42 times as on March 31, 2019. Further, debt coverage of the company stood moderate marked by total debt to GCA of 7.93 times as on March 31, 2019, improved from 12.65 times as on March 31, 2018 due to higher increase in GCA level as against increase in working capital bank borrowings. Interest coverage ratio of the company stood moderate at 2.00 times as on March 31, 2019, improved from 1.39 times as on March 31, 2018 owing to healthy PBILDT margin in FY19 and stagnant interest expenses.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

Background of the Company
Jaipur (Rajasthan) based Unique Organics Limited (UOL) was incorporated in 1993 by Mr Jyoti Prakash Kanodia along with their relatives and subsequently shares of the company listed on Bombay Stock Exchange. UOL is engaged in the business of manufacturing of cattle feeds. The manufacturing plant of the company is located at Sitapura Industrial Area, Jaipur with the installed capacity of 25 tons per day of cattle feed and 35 tons per day of maize. The company is also engaged in the trading of spices and export 60-70% of total trading in Vietnam, Australia, Czech Republic, Turkey and Ukraine. Further, company also work on job work for "Himalaya".

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	38.79	29.22
PBILDT	1.09	1.54
PAT	0.31	0.66
Overall gearing (times)	0.41	0.42
Interest coverage (times)	1.39	2.00

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	-	-	-	6.00	CARE BB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	3.00	CARE A4
Fund-based - ST-FBN / FBP	-	-	-	3.00	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	6.00	CARE BB-; Stable	-	-	-	-
2.	Fund-based - ST-EPC/PSC	ST	3.00	CARE A4	-	-	-	-
3.	Fund-based - ST-FBN / FBP	ST	3.00	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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