Unique Organics Limited

August 31, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	6.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A4 (A Four)	Reaffirmed
Total Facilities	12.00 (Rs. Twelve Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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

The ratings, however, continue to favorably take into account the experienced promoters and long track record of operations of entity of more than two and half decades, favourable outlook of Indian cattle feed market and comfortable capital structure.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations with Total Operating Income (TOI) above Rs.60.00 crore.
- Sustained improvement in total debt to GCA of below 10 times.
- Sustained improvement in working capital cycle below 110 days.

Negative Factors

- Decline in TOI below Rs.25 crore or its profitability margins from current level.
- Deterioration in capital structure above 2 times and total debt to gca above 20 times.
- Deterioration in solvency position on account of future capex.

Detailed description of the key rating drivers

Key Rating Weaknesses

Fluctuating and modest scale of operations with thin profitability margins

TOI of the company has witnessed fluctuating trend in last three financial years ended FY20. During FY20, TOI has improved by 4.05% over FY19. However, growth in TOI during FY20 stood low owing to delay in delivery in export order due to Covid 19. Due to it, during Q1FY21, it has registered TOI of Rs.15.63 crore. It has generated 39.60% of net sales in FY20 from export as against 67.73% in FY19. During Q1 FY21, it has generated 74.72% of TOI from export.

The profitability margin of the company stood thin with PBILDT and PAT margin of 2.59% and 0.15% respectively in FY20 as against 5.29% and 2.24% respectively in FY19. PBILDT margin has declined by 270 bps in FY20 over FY19 on account of higher cost of material consumed as well as low export sales where margins are higher. In line with decline in PBILDT margin, PAT margin of the company has declined by 211 bps in FY20 over FY19, although, lower in quantum as against decrease in PBILDT margin owing to decline in interest cost. With decline in PAT, GCA has also declined by 60.95% in FY20 over FY19.

During Q1FY21, it has generated 10.75% of PBILDT margin and 6.85% of PAT margin.

Deterioration in debt coverage indicators

Debt coverage of the company has deteriorated with total debt to GCA has deteriorated from 7.93 times as on March 31, 2019 to 17.46 times as on March 31, 2020 due to higher decline in GCA level as against decline in debt level. Interest coverage ratio of the company stood moderate at 1.54 times in FY20, deteriorated from 2.00 times in FY19 owing to higher decline in PBILDT level in FY20 as against decline in interest expenses.

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 63.51% of revenue from top five customers in FY20 and hence, reflecting high customer concentration risk in a highly competitive and fragmented 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 to them.

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

The key raw materials of the company are agro products like bajra, maize, soya (de oiled cake), etc. These materials are available domestically and the company is expected to procure the same through farmers and distributors in the region. Due to highly competitive nature of the 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 susceptible to fluctuation in exchange rates as the company drives export sales 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 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

The company does not have any long-term debt and debt consists of only working capital bank borrowings which it has utilization of around 70-75% average utilization during last 12 months ended July 2020. Due to low working capital utilization and moderate net-worth base of Rs.12.29 crore as on march 31, 2020, the capital structure of the company stood comfortable marked by overall gearing of 0.36 times as on March 31, 2020.

Liquidity: Stretched

The liquidity position of the company stood stretched on account of elongated operating cycle of 175 days in FY20 owing to higher collection period of 177 days. On account of high debtors, the current ratio and quick ratio stood comfortable at 2.50 times and 2.24 times respectively as on March 31, 2020. It has 70-75% of average utilization of its working capital bank borrowings during past 12 months ended July 31, 2020. It has generated cash flow from operating activities of Rs.1.55 crore in FY20. It has envisaged to generate adequate GCA in FY21 as against no repayment obligation. Further it has cash and bank balance of Rs.0.02 crore as on March 31, 2020. Further as per the banker interaction, it has not availed any moratorium or any enhancement in bank facilities during lockdown on account of Covid-19 for the period of Mar to Aug 2020.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Jaipur (Rajasthan) based 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 80 tons per day of cattle feed as on March 31, 2020. The company is also engaged in the trading of spices and export in Vietnam, Australia, Czech Republic, Turkey, Ukraine and USA.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total operating Income	29.22	30.40
PBILDT	1.54	0.79
PAT	0.66	0.04
Overall gearing (times)	0.42	0.36
Interest coverage (times)	2.00	1.54

A: Audited

During Q1FY21, it has registered the TOI of Rs.15.63 crore with PAT of Rs.1.07 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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 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	6.00	CARE BB-; Stable	-	1)CARE BB-; Stable (01-Jul-19)	-	-
2.	Fund-based - ST-EPC/PSC	ST	3.00	CARE A4	-	1)CARE A4 (01-Jul-19)	-	-
3.	Fund-based - ST-FBN / FBP	ST	3.00	CARE A4	-	1)CARE A4 (01-Jul-19)	-	-

Annexure 3: Complexity level of various instruments rated for this company/firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-EPC/PSC	Simple
3.	Fund-based - ST-FBN / FBP	Simple

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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