

November 15, 2024

Raghunath Agro Commodities: Long-term rating downgraded to [ICRA]B+(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash credit	60.00	60.00	[ICRA]B+(Stable); downgraded from [ICRA]BB- (Stable)
Long-term fund based – Term loan	21.00	11.00	[ICRA]B+(Stable); downgraded from [ICRA]BB- (Stable)
Short-term – Fund based	110.00	110.00	[ICRA]A4; reaffirmed
Short-term – Non fund based	15.00	15.00	[ICRA]A4; reaffirmed
Long-term/short-term - Unallocated	-	10.00	[ICRA]B+ (Stable) / [ICRA]A4; long-term rating downgraded from [ICRA]BB- (Stable); short-term rating reaffirmed
Total	206.00	206.00	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the long-term rating reflects the continued pressure on the top line for Raghunath Agro Commodities (RAC), as evidenced by a more than 50% decline in its operating income in FY2024, following a similar trajectory in FY2023. The decline in top line has largely been driven by the loss of sales in one of its key export markets and pressure on realisations. While some growth in the top line is expected in FY2025 compared to FY2024, it will still remain much lower than the peaks of FY2022. Consequently, the firm's profit and cash accruals were also impacted, which led to a deterioration in its debt protection metrics.

The debt metrics are likely to moderate further in the current year, given the pressure on earnings and RAC is expected to rely on support from promoter infusions/realisation of advances extended to third parties/individuals (amounting to Rs. 18.8 crore as on March 31, 2024) to manage its liquidity. The ratings also factor in the risks inherent in partnership firms, including the risk of capital withdrawal by promoters and intense competition in a highly fragmented business, leading to limited pricing power and margins. However, the ratings positively factor in the partners' extensive experience in the cotton trading industry, and the firm's proximity to cotton growing regions.

The Stable outlook reflects ICRA's expectations that RAC's performance will continue to benefit from its established presence in the cotton trading industry and presence in cotton growing belt.

Key rating drivers and their description

Credit strengths

Extensive experience of partners in cotton industry – The partners have extensive experience of over two decades in the cotton industry, leading to established relationships with customers and suppliers. The partners' long track record in the industry supports quality cotton procurement at favourable rates.

Proximity to cotton growing areas – The firm's operations are supported by its proximity to the cotton growing areas of Adilabad (Telangana), resulting in easy cotton availability and transportation cost savings. The firm saves on transportation costs for locally cotton procured. Further, the firm also imports cotton bales majorly from Brazil and Singapore (of different quality). ICRA notes that the proportion of cotton bales imported has been gradually increasing as reflected by imports accounting 52% of its purchases while 48% were indigenously procured in FY2024 (compared to 32% imports in FY2023 and 13% imports in FY2022).

Credit challenges

Declining scale of operations with continued pressure on profitability – RAC reported revenues of Rs. 210 crore in FY2024 compared to Rs. 446 crore in FY2023 (53% YoY decline) and Rs. 875 crore in FY2022 (49% YoY decline). The impact on top line has been due to the loss of business in one of its key export markets (Bangladesh) and pressure on realisations. In H1 FY2025, it reported a total revenue of Rs. 132 crore and is likely to report ~Rs. 220-250 crore for FY2025. The operating profit margin also continues to be low at 3.8% in FY2024 compared to 4.2% in FY2023, given the limited value addition in cotton trading.

Weak debt coverage metrics along with stretched liquidity position – RAC's financial profile is weak, as characterised by low profit margins and high working capital requirements. The interest coverage deteriorated to 1.3 times in FY2024 (from 1.7 times during FY2023) on account of lower profits, with a decline in revenues. The debt protection metrics is expected to remain under pressure in near term due to moderate scale-up in operations, coupled with modest profitability levels. High working capital requirements in the business and moderation in earnings resulted in 94% utilisation of the fund-based limits (for the past 12 months ending September 2024), leading to pressure on its liquidity position. Given its constitution as a partnership firm, the firm is exposed to discrete risks, including the possibility of capital withdrawal by partners.

Intense competition limits pricing flexibility – The firm encounters intense competition from organised and unorganised players, given the low entry barriers, limiting its pricing flexibility and bargaining power. This constrains its margins and exposes the earnings to fluctuations in raw material prices. Order-backed cotton procurement and hedging open exposures through commodity exchanges limit the price risk to an extent.

Liquidity position: Stretched

RAC's liquidity position is stretched, given the modest earnings and high working capital requirements in the business. The average utilisation of working capital limits stood high at ~ 94% for the last 12 months ended September 2024. While the firm does not have any significant capex planned in the near-to-medium term, it has debt repayment obligations of Rs. 4.3 crore in FY2025, which may entail support from promoters /realisation of advances extended in case of any cash flow mismatches.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a notable growth in scale, along with improvement in profitability, which, in turn, leads to improvement in liquidity and debt coverage metrics on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is sustained pressure on earnings or an elongation of the working capital cycle, which would adversely impact the liquidity position and debt protection metrics on a sustained basis. Further, significant capital withdrawal or incremental cash outflow towards related parties, adversely impacting the liquidity position, could also result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

Raghunath Agro Commodities (RAC) was constituted as a partnership firm in February 2017 and started operations in February 2018. The firm is involved in the trading of cotton lint and bales. The firm's office is located in Adilabad, Telangana, and its partners have more than two decades of experience in the cotton trading business.

Key financial indicators (audited)

	FY2023	FY2024	H1 FY25*
Operating income	445.5	209.7	132.4
PAT	4.0	2.5	1.2
OPBDIT/OI	4.2%	3.8%	4.4%
PAT/OI	0.9%	1.2%	0.9%
Total outside liabilities/Tangible net worth (times)	5.9	2.7	3.1
Total debt/OPBDIT (times)	6.3	8.2	13.2
Interest coverage (times)	1.7	0.7	1.3

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Chronology of rating history for the past 3 years									
	Current (FY2025)			FY2024		FY2023		FY2022		
Instrument	Type	Amount Rated (Rs Crore)	Nov 15, 2024	Date	Rating	Date	Rating	Date	Rating	
Fund-based – Cash credit	Long-term	60.00	[ICRA]B+ (Stable)	27-Dec-23	[ICRA]BB- (Stable)	22-Sep-22	[ICRA]BB (Stable)	06-Dec-21	[ICRA]BB- (Stable)	
				06-Sep-23	[ICRA]BB- (Stable)	-	-	-	-	
Fund based – Term loans	Long-term	11.00	[ICRA]B+ (Stable)	27-Dec-23	[ICRA]BB- (Stable)	22-Sep-22	[ICRA]BB (Stable)	06-Dec-21	[ICRA]BB- (Stable)	
				06-Sep-23	[ICRA]BB- (Stable)	-	-	-	-	
Fund based	Short-term	110.00	[ICRA]A4	27-Dec-23	[ICRA]A4	22-Sep-22	[ICRA]A4+	06-Dec-21	[ICRA]A4	
				06-Sep-23	[ICRA]A4	-	-	-	-	
Non-fund based	Short-term	15.00	[ICRA]A4	27-Dec-23	[ICRA]A4	22-Sep-22	[ICRA]A4+	06-Dec-21	[ICRA]A4	
Unallocated	Long-term /Short-term	10.00	[ICRA]B+ (Stable) / [ICRA]A4	-	-	22-Sep-22	[ICRA]BB (Stable)/ [ICRA]A4+	06-Dec-21	[ICRA]BB- (Stable)/ [ICRA]A4	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Cash credit	Simple
Long-term – Fund based – Term loans	Simple
Short-term – Fund based	Very simple

Short-term – Non Fund based	Very simple
Long-term/short-term - Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term - fund-based – cash credit	-	-	-	60.00	[ICRA]B+ (Stable)
NA	Long-term – fund based – Term loans	FY2022	-	FY2034	11.00	[ICRA]B+ (Stable)
NA	Short-term – fund based	-	-	-	110.00	[ICRA]A4
NA	Short-term – non fund based	-	-	-	15.00	[ICRA]A4
NA	Long-term /short-term - Unallocated	-	-	-	10.00	[ICRA]B+ (Stable) / [ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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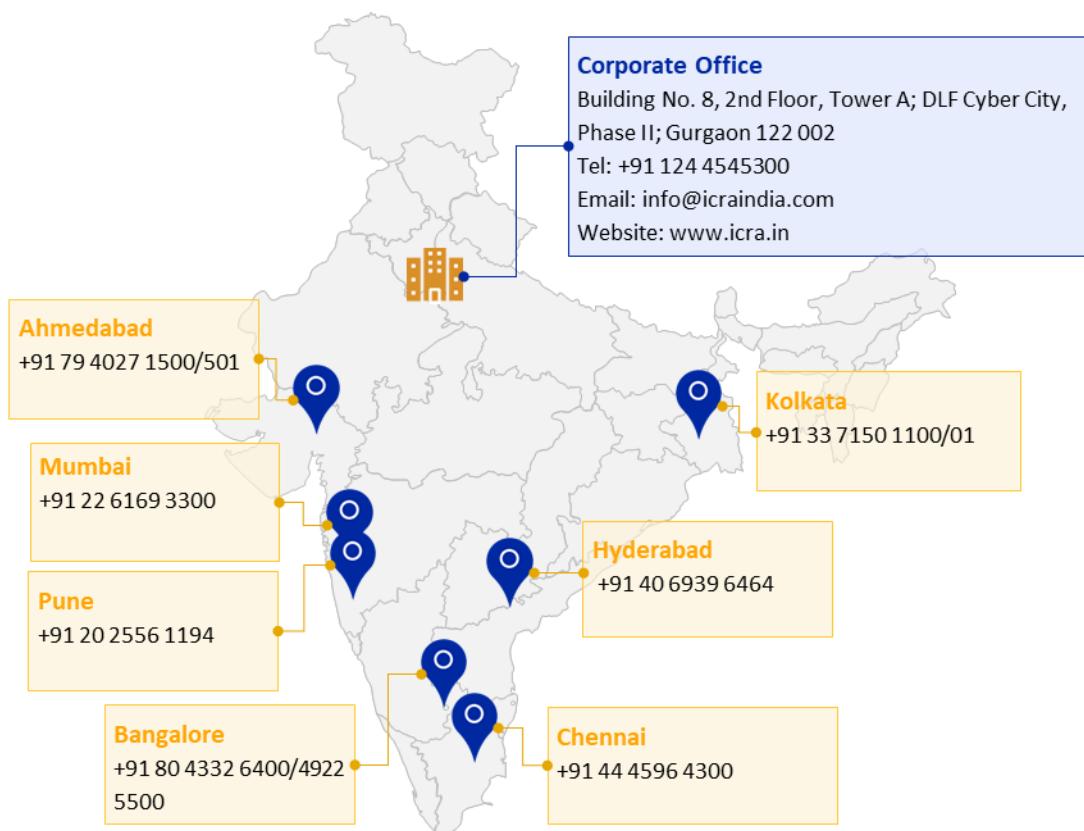
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