

December 27, 2023

Raghunath Agro Commodities: Ratings reaffirmed and rated amount enhanced

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]BB- (Stable); reaffirmed
Long-term fund based – Term loan	6.00	21.00	[ICRA]BB- (Stable); reaffirmed/ assigned for enhanced amount
Short-term – Fund based	110.00	110.00	[ICRA]A4; reaffirmed
Short-term – Non fund based	-	15.00	[ICRA]A4; assigned
Total	176.0	206.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings action reflects a likely moderation in performance of Raghunath Agro Commodities (RAC) in FY2024 and the expected continued pressure on the debt coverage metrics and liquidity in the near term. The firm's revenues are likely to decline by around 35% in FY2024 owing to pressure on cotton availability, unfavourable cotton prices and pressure on demand. The performance of the company weakened in FY2023, as reflected by a 48% decline in revenues, which was accompanied by an increase in the working capital intensity, resulting in a deterioration of the debt coverage metrics and stretched liquidity. The interest coverage declined to 1.7 times in FY2023 and is expected to remain weak in the current year with pressure on earnings coupled with an increase in working capital utilisation. Further, stretch in the working capital cycle and the consequent higher working capital requirement have constrained the firm's liquidity position in the recent months. Moreover, the financial profile is characterised by a low net worth base and relatively higher quantum of loans and advances extended to the Group entities in the last two fiscals. Any incremental support towards other Group entities could adversely impact the firm's credit profile. The ratings also factor in the risks inherent in partnership firms, including the risk of capital withdrawal by the promoters and intense competition in a highly fragmented business, leading to low pricing power and margins. The ratings continue to derive comfort from the partners' extensive experience in the cotton trading industry, resulting in an established customer and supplier base.

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 long relationship with its key customers, aiding in repeat orders.

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 operations are supported by its proximity to the cotton growing areas of Adilabad, resulting in easy availability of cotton and savings in transportation costs.

Credit challenges

Deterioration in debt coverage metrics and liquidity in FY2023 coupled with expected decline in revenues in FY2024 – RAC's financial profile is characterised by stretched capitalisation level because of the thin profit margins and the high working capital requirements of the business. RAC's debt protection metrics remain moderate with an interest coverage of 1.7 times and DSCR of 1.4 times in FY2023. The debt metrics are likely to moderate further in the current year, given the pressure on earnings. Further, high working capital requirements of the business and moderation in earnings resulted in 97% utilisation of the fund-based limits in the recent months, putting the liquidity position under stress. Moreover, given its constitution as a partnership firm, the company is exposed to discrete risks, including the possibility of capital withdrawal by the partners.

Intense competition limits pricing flexibility – The firm faces 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 of the business. The average utilisation of the working capital limits stood high at about 97% for the last 12 months ended in November 2023. RAC is likely to generate fund flow from operations of Rs. 3.7 crore in FY2024 against debt repayment obligations of Rs. 2.8 crore.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a sustained growth in revenues and earnings, strengthening its coverage metrics and liquidity position. Specific credit metrics for ratings upgrade include an interest coverage of more than 2.2 times on a sustained basis.

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

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

Key financial indicators (audited)

RAC	FY2022	FY2023
Operating income	874.4	459.6
PAT	6.8	2.7
OPBDIT/OI	1.4%	3.7%
PAT/OI	0.8%	0.6%
Total outside liabilities/Tangible net worth (times)	8.8	6.0
Total debt/OPBDIT (times)	11.6	7.0
Interest coverage (times)	2.2	1.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Dec 27, 2023	Sep 06, 2023			Nov 03, 2020	Jul 20, 2020
1 Fund-based – Cash credit	Long-term	60.00	--	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING
2 Fund based – Term loans	Long-term	21.00	21.00	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
3 Fund based	Short-term	110.00	--	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING
4 Non-fund based	Short-term	15.00	--	[ICRA]A4	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING
5 Unallocated	Long-term /Short-term	-	--		-	[ICRA]BB (Stable)/[ICRA]A4+	[ICRA]BB (Stable)/[ICRA]A4	[ICRA]B+ (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

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]BB- (Stable)
NA	Long-term – fund based – Term loans	FY2022	-	FY2034	21.00	[ICRA]BB- (Stable)
NA	Short-term – fund based	-	-	-	110.00	[ICRA]A4
NA	Short-term – non fund based	-	-	-	15.00	[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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Gaurav Singla

+91 12 4454 5366

gaurav.singla@icraindia.com

Kaushik Das

+91 33 7150 1100

kaushikd@icraindia.com

Vilasagaram Nandakishore

+91 40 4547 4829

vilasagaram.nandakishore@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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