

Agra Oil & General Industries Ltd.

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	11.10	11.10	[ICRA]B+ (Stable); Reaffirmed
Total	11.10	11.10	

Rating action:

ICRA has reaffirmed a long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 11.10-crore¹ fund-based facilities of Agra Oil & General Industries Limited (AOGIL or the company)². The outlook on the long-term rating is Stable.

Rationale:

The ratings reaffirmation factors in ~11% decline in the operating income (OI) in FY2017 owing to volume decline in sale of self-manufactured mustard oil. The ratings also note the thin profitability margins that have declined to 1.05% in FY2017 from 2.09% in FY2016. However, the margins have remained range bound within ~1-2% over the past few years, as is inherent to edible oil-refining business. The ratings also factor in the weak credit profile of the company with highly leveraged capital structure with a gearing of 3.14 times and stretched coverage metrics with Net Cash Accruals/Debt of 2% and interest coverage of 0.45 times in FY2017. The ratings continue to be affected by high product-concentration risk as the company's product portfolio includes only mustard oil and cake. The ratings continue to be constrained by the highly-fragmented nature of the mustard oil industry, and the vulnerability of the company's profitability to agro-climatic risks that may impact the availability as well as price of mustard oil and oilseeds.

Nevertheless, ratings favourably factor in the long track record of the promoters in mustard oil-refining business. The ratings also derive comfort from the company's favourable location for raw material purchase of mustard oil seeds. Moreover, the ratings take comfort from the favourable demand outlook in the domestic market, especially northern and north-eastern India for mustard oil, which is one of the most widely-consumed edible oils in the country.

Outlook: Stable

ICRA believes AOGIL will continue to benefit from the extensive experience of its partners. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers:

Credit strengths

Established track record of the promoters in edible oil business: The promoters have more than four decades of experience in the edible oil-refining business. The company is a part of the Goyal Group with a number of Group companies involved in the similar line of business.

Location advantage: The company's manufacturing facility is located in proximity to regions growing its primary raw material. Most of the mustard seeds are procured domestically from neighbouring states like Rajasthan, UP, and Haryana. In addition, the entire raw material is domestically procured and import of mustard oil is almost nil, which protects the domestic mustard oil producers.

Absence of long-term debt: AOGIL has cushion to absorb any adverse spikes in the business to a certain extent due to negligible long-term loan liabilities.

Favourable demand prospects for edible oil industry: Edible oils constitute an important component of food expenditure of Indian households and the demand for edible oils is expected to increase with growing population and per capita increase in consumption. The consumption of mustard oil is largely impacted by regional tastes and preferences and climatic conditions, besides price effectiveness. The eastern and north-eastern regions constitute a sizeable market for mustard oil due to taste preference.

Credit challenges

Moderate scale of operations: The OI of the company has declined in FY2017 as a result of a decline in volumes sold. The topline of the company has remained flat over the past few years as it has not been able to increase the production of mustard oil.

Weak credit profile: Adverse capital structure, moderate interest-coverage indicators on account of low net worth and thin margins.

Thin profitability as is inherent in edible oil-refining industry: Decline in profitability in FY2017 as a result of high volumes traded and highly fragmented and competitive edible oil industry results in limited pricing power and inherently thin profitability. The company's operating profitability has been range bound between 1% and 2% over the past few years.

High product-concentration risk: With only mustard oil in AOGIL's portfolio, its business is vulnerable to supply-side risks such as agro-climatic risks and geo-political risks. This is mainly because most of the demand is met domestically.

Intensely competitive market: Stiff competition from cheaper varieties of imported edible oils and vulnerability to movements in global edible oil prices. Forex fluctuation and adverse changes in duty structure can also impact competitiveness.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Edible Oil \(Solvent Extraction\) Industry](#)

About the company:

AOGIL was incorporated in 1972 as a proprietorship firm and was later converted into a public limited company. The company manufactures mustard oil and mustard cake at its unit in Agra, UP, which has a seed-crushing capacity of 32,000 metric tonne per annum (MTPA). It is also involved in the trading of mustard oil and cake. Along with manufacturing operations, the company is involved in trading of mustard oil and cake. In edible oil, 100% of the company's sales are in the branded segment, named 'Krishna' and 'Swastik'. AOGIL is the flagship company of the Goyal Group, which encompasses various business such as mustard oil production as well as trading of cattle feed, packaging products, refrigeration of agro product, mushroom growing, manufacturing of soap noodles, allied chemicals and real-estate development for around four decades.

In FY2017, the company reported a net profit of Rs. 0.12 crore on an OI of Rs. 62.49 crore compared with a net profit of Rs. 0.55 crore on an OI of Rs. 70.45 crore in the previous year.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	70.45	62.49
PAT (Rs. crore)	0.55	0.12
OPBDIT/ OI (%)	2.09%	1.05%
RoCE (%)	13.46%	9.85%
Total Debt/ TNW (times)	3.34	3.14
Total Debt/ OPBDIT (times)	8.92	19.34
Interest Coverage (times)	1.02	0.45
NWC/ OI (%)	20%	22%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
1 Cash Credit	Long Term	11.10	NA	December 2017 [ICRA]B+ (Stable)	November 2016 [ICRA]B+	October 2015 [ICRA]B+	- [ICRA]B+	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	11.10	[ICRA]B+ (Stable)

Source: Agra Oil & General Industries Ltd.

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About ICRA Limited:

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