

## M R Agro Industries

December 31, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Exporter's Gold Card Stand-by Limit	2.80	2.80	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Cash Credit <sup>^</sup>	(4.50)	(4.50)	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Packing credit cum PCFC cum/FBP/FBD/FCBP/FCBD	14.00	14.00	[ICRA]A4; Reaffirmed
<b>Total</b>	<b>16.80</b>	<b>16.80</b>	

<sup>^</sup>Sublimit of PC cum PCFC cum/FBP/FBD/FCBP/FCBD

\*Instrument details are provided in Annexure-1

### Rationale

The upgrade in the long-term rating considers the healthy growth in M R Agro Industries' (MRAI) scale of operations over the past two fiscals and the improvement in its capital structure in the current fiscal owing to capital infusion. The ratings continue to favourably consider the extensive experience of the promoters in the agro-commodities business and its favourable location in Unjha, Gujarat, providing easy access to quality raw material and proximity to ports.

The ratings, however, remain constrained by the firm's thin profitability because of intense competition and low value addition in the trading business. The ratings further consider the average financial risk profile marked by leveraged capital structure, average debt coverage indicators and average liquidity position as evident by the high utilisation of its working capital limits. The ratings also factor in the vulnerability of the firm's profitability to foreign currency fluctuations, given the sizeable export sales, as well as susceptibility of its operations and profitability to any regulatory changes by the Government with respect to the export incentive structure and foreign trade policy and the inherent volatility in agro-commodity prices as the same is linked to availability, seasonality and crop harvest. ICRA also notes the potential adverse impact on MRAI's net worth and the gearing levels in case of any substantial withdrawal from the capital accounts, given that it is a partnership concern.

### Outlook: Stable

ICRA believes, MRAI will continue to benefit from the extensive experience of its promoters in the agro-commodities business and benefits emanating from proximity to raw material (agro-commodities) sources. The outlook may be revised to Positive if substantial growth in revenue and profitability with efficient working capital management, and improvement in the capital structure, strengthen the financial risk profile. The outlook may be revised to Negative if any significant de-growth in the scale and profitability lead to lower-than expected cash accruals or capital withdrawal, leading to deterioration in capital structure, weakens the overall liquidity position of the firm.

## Key rating drivers

### Credit strengths

**Extensive experience of promoters in the agro-commodities business** – The key promoters, Mr. Mitesh Patel and Mr. Alpesh Patel have more than a decade-long experience in the processing and export of agro-commodities, which helps to garner continuous order from the export market.

**Location-specific advantages** – MRAI derives a major part of its revenue from the processing of sesame seeds and cumin seeds (~90% in FY2017 and ~92% in FY2018) with Gujarat being the leading contributor to the total sesame seeds and cumin seeds production in the country. MRAI also benefits in terms of procurement for other agro-commodities available in Gujarat and the neighbouring states like Rajasthan, Uttar Pradesh and Madhya Pradesh. Further, a predominant share of its sales are through export, thus, proximity to the ports provides logistic advantage to the firm.

**Healthy revenue growth and infusion of capital in FY2019** – The firm's operating income (OI) continued to grow at a healthy rate in FY2017 (~53%) and FY2018 (~40%) on the back of an increase in sales volumes. Further, in the current fiscal, MRAI has infused capital, which resulted in increase in net-worth base to Rs. 10.13 crore as on December 2018 from Rs. 7.08 crore as on March 2018.

### Credit challenges

**Average financial risk profile** – The firm's operating profit margin have remained low in the past two fiscals, in the range of less than ~1%, due to the commoditised nature of agro products and the limited value addition in the trading business. Owing to high reliance on working capital borrowings, along with low cash accruals and capital withdrawal, the capital structure remained leveraged with a high gearing of 2.93 times as on March 31, 2018, increased from 2.70 times as on March 31, 2017. Further, the debt coverage indicators remained average, with an interest coverage of 1.98 times and Total Debt/OPBDITA of 6.71 times in FY2018.

**Exposure to agro-climatic conditions; intense competition** – The agro-commodity processing and export business remains dependent on the performance of the agricultural sector, which is impacted by a combination of factors like climatic conditions, prevailing demand–supply scenario etc. Further, the low value addition nature of operations, coupled with intense competition in the industry, exerts pressure on its profitability. Moreover, a major part of its revenue is generated from the export markets. Thus, MRAI's profit margin remains susceptible to foreign exchange fluctuations.

**Exposure to regulatory changes and export incentives pertaining to export markets** – The firm's operating profitability continues to be supported by export incentives. Any reduction in the same along with changes in Government policies pertaining to foreign trade can impact the firm's operations and profitability.

**Risk associated with partnership firms** – MRAI, being a partnership firm, is exposed to adverse capital structure risk in case of substantial withdrawal from its capital accounts as happened in FY2018.

### Liquidity position:

MRAI's cash flow from operations remained positive in FY2018 due to an increase in sales and release of working capital. The free cash flow also remained positive in FY2018. However, the firm's liquidity position is average as indicated by full utilisation of working capital limits owing to seasonality base agro-commodities operations and low cash accruals.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Trading Companies</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the firm.

## About the company

Established in 1999, MRAI is a partnership firm owned and managed by Mr. Mitesh Patel and Mr. Alpesh Patel with two other partners. The firm is involved in processing (cleaning and sorting) and exports of agro-commodities such as sesame seeds, cumin seeds, fennel seeds, coriander seeds, mustard seeds etc. The processing unit is located at Unjha in Gujarat, with an installed processing capacity of 28 metric tonne per day.

In FY2018, the firm reported a net profit of Rs. 1.73 crore on an OI of Rs. 406.55 crore, as compared to a net profit of Rs. 1.39 crore on an OI of Rs. 291.43 crore in the previous year.

## Key Financial Indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	291.43	406.55
PAT (Rs. crore)	1.39	1.73
OPBDIT/ OI (%)	0.99%	0.76%
RoCE (%)	10.21%	11.71%
Total Debt/ TNW (times)	2.70	2.93
Total Debt/ OPBDIT (times)	7.18	6.71
Interest coverage (times)	2.04	1.98

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
Exporter's Gold Card Stand-by Limit	Long Term	2.80	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	-	[ICRA]B-Suspended
Cash Credit <sup>^</sup>	Long Term	(4.50)	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	-	-
Packing credit cum PCFC cum/FBP/FBD/FCBP/FCBD	Short Term	14.00	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4 Suspended
Term Loan	Long Term	-	-	-	-	-	[ICRA]B-Suspended
Unallocated Limits	Long Term/ Short Term	-	-	-	-	[ICRA]B+(Stable)/ [ICRA]A4	

<sup>^</sup>Sublimit of PC cum PCFC cum/FBP/FBD/FCBP/FCBD

### 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](http://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	Exporter's Gold Card Stand-by Limit	NA	NA	NA	2.80	[ICRA]BB- (Stable)
NA	Cash Credit <sup>^</sup>	NA	NA	NA	(4.50)	[ICRA]BB- (Stable)
NA	Packing credit cum PCFC cum/FBP/FBD/FCBP/FCBD	NA	NA	NA	14.00	[ICRA]A4

<sup>^</sup>Sublimit of PC cum PCFC cum/FBP/FBD/FCBP/FCBD

Source: M R Agro Industries

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