Ambica Agarbathies Aroma & Industries Ltd

October 24, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	66.00	[ICRA]B (Stable); Assigned
Total	**66.00**	

Rating action

ICRA has assigned a long-term rating of [ICRA]B (pronounced ICRA B)[1] to the Rs. 66-crore[2] fund-based facilities of Ambica Agarbathies Aroma & Industries Ltd. (AAAIL). The outlook on the long-term rating is Stable.

Rationale

The assigned rating is constrained by the company's weak financial profile, characterised by operating loss in FY2018. The company incurred loss because of a one-time inventory write-off due to quality issues, leading to weak coverage indicators. The rating considers the company's high working capital intensity owing to high short-term advance extended to raw material suppliers. Further, the ratings are constrained by revenue de-growth in the agarbathi division in the past few years on account of increasing competition. The agarbathi manufacturing industry is fragmented and is characterised by the presence of large organised and several unorganised regional players, restricting revenue growth and margins. The rating also takes into account the concentration risk arising out of the company's single hotel property, resulting in total dependence on the demand-supply scenario in the Chennai hospitality market, which is intensely competitive in nature.

The rating, however, draws comfort from the extensive expertise of promoters with over five decades of experience in manufacturing agarbathies and the company's diversified revenue base. Agarbathi manufacturing, maize trading and hotel divisions account for a major portion of its revenues. The rating also takes into account the company's strong distribution network along with the strong brand recognition of Ambica in Andhra Pradesh, Telangana and Tamil Nadu.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that AAAIL will continue to benefit from the extensive experience of its promoters in agarbathi manufacturing and the reputed brand name of Ambica in the agarbathi segment. 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 lower-than-expected cash accruals, or higher than anticipated debt-funded capex, or stretch in the working-capital cycle, weakens liquidity.

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

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

Established presence in manufacturing of agarbathies – The promoters have a proven track record of more than 50 years in manufacturing of agarbathies, leading to an established customer base. Moreover, Ambica is a reputed brand in agarbathies in Andhra Pradesh, Telangana and Tamil Nadu.

Diversified mix of revenues – The company has a diversified mix of revenues with its presence in agarbathies manufacturing, hospitality, maize trading, construction and wind power. However, agarbathi manufacturing, maize trading and hotel divisions account for a major portion of its revenues.

Credit weaknesses

Weak financial profile – The company's financial profile is weak with operating loss in FY2018 on account of a one-time inventory write-off due to quality issues. The company's coverage indicators remained stretched over the years and an operating loss in FY2018 resulted in further deterioration of the same.

High working capital intensity – The company's working capital intensity has been high over the years in the range of 31-35% owing to high short-term advances given to raw material suppliers. In the absence of working capital limits from bank, the effective working capital management remains crucial.

Moderate scale with high dependence on agarbathi manufacturing and hotel segment – The company's scale of operations in each division is moderate, restricting its financial flexibility. It derives a major portion of its revenues from agarbathi manufacturing and hotel segment. The revenue growth remained muted over the years owing to increasing competition in agarbathi manufacturing.

Intensely competitive and fragmented agarbathi manufacturing industry – Agarbathi manufacturing industry is intensely competitive and fragmented in nature with presence of a large number of organised and unorganised regional players, impacting the company's revenues and margins.

Intense competition and cyclicality inherent in the hospitality market - Cyclicality inherent in the hospitality business exposes the company to variability in cash flows during the year as well as market risk arising from the lack of novelty factor. Further, the market is likely to remain competitive with additional room supplies from competitors.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology]

About the company:

Ambica Agarbathies Aroma & Industries Ltd. (AAAIL) was incorporated on April 21, 1995 by Mr. Ambica Krishna and family members. The company has business interests across five divisions namely agarbathi, maize trading, hotel, windmill and construction. However, the agarbathi division accounts for a major portion (67%) of its revenues. AAAIL sells agarbathies under its brand, Ambica, which is well established in the regions of Andhra Pradesh and Telangana. Besides, the company operates a 3-star hotel with 87 rooms in Chennai. The company's manufacturing unit is located in Eluru, Andhra Pradesh.

In FY2018, the company reported a net loss of Rs. 17.8 crore on an operating income of Rs. 125.4 crore, compared to a net profit of Rs. 1.5 crore on an operating income of Rs. 119.2 crore in the previous year.

Key Financial Indicators

	FY 2017	FY 2018
Operating Income (Rs. crore)	119.2	125.4
PAT (Rs. crore)	1.5	-17.8
OPBDIT/ OI (%)	10.1%	-4.3%
RoCE (%)	11.5%	-6.1%
Total Debt/ TNW (times)	1.5	0.9
Total Debt/ OPBDIT (times)	4.8	-14.1
Interest coverage (times)	1.4	-0.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating October 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Term Loan	Long Term	66.00	64.99	**[ICRA]B (Stable)**	-	-	-

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	Term Loan	March-2018	-	May-2033	66.00	[ICRA]B (Stable)

Source: AAAIL

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

R. Srinivasan
+91 44 4596 4315
r. srinivasan@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Prateek Pasari
+91 40 4067 6517
prateek.pasari@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999