



Press Release

Avyukta Agro Impex Private Limited
January 21, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Short Term Bank Facilities	65.00 (Enhanced from Rs. 45.00 crore)	IVR A4 (IVR A Four)	Downgraded from IVR A4+
Long Term Bank Facilities *	(32.00) [#]	IVR BB/ negative Outlook (IVR Double B with Negative Outlook)	Downgraded from IVR BB+/Stable Outlook
Total	65.00		

*Earlier Rs. 1.00 crore was proposed as CC interchangeable limit of short term facility

[#]Overdraft facility is the sublimit of the short term facility.

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Avyukta Agro Impex Pvt Ltd (AAIPL) have been downgraded with negative outlook taking cognizance of the company's application for One Time Restructuring (OTR), of its bank facilities, under the Reserve Bank of India's (RBI) guidelines issued on August 06, 2020. The rating action is in line with Infomerics's Policy on Default Recognition and relevant SEBI circular dated August 31, 2020. The action also reflects the uncertainty on the extent and timing of recovery in the operating and financial performance of the company, which is currently impacted by the Covid-19 led slowdown. Further, receipt of approval from the lenders along with the recovery in the financial & operational performance of AAIPL will be key rating monitorables.

The revision in the rating assigned to the bank facilities of Avyukta Agro Impex Pvt Ltd takes into account continued liquidity constraints owing to stretched receivables which led to several devolvments in letter of credit in the recent past. The rating also constrained by the low profitability margin, short track record of operations, highly fragmented industry and volatility in international edible oil prices and exposure to risk of foreign exchange fluctuation.



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The account derives comfort from experienced management, established relationship with suppliers and customers, order backed nature of business and conservative capital structure

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations and improvement in profit margin leading to improvement in cash accruals and liquidity

Downward Rating Factors

- More than expected decline in revenue and/or profitability on a sustained basis affecting the liquidity position
- Moderation in the capital structure or a decline in interest coverage

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced management**

The promoter of the company, Mr. Varun Gupta has an experience of about 8 years in the edible oil trading industry. Further, the promoter's family are also involved in the same line of business. The promoter is well assisted by a team of professionals having relevant industry experience in the day-to-day operation.

- **Established relationship of the Group with suppliers and customers**

The group has been engaged in trading of edible oils for about 9 years. It has developed relations with its customer and supplier base, which is expected to benefit AAIPL. Further, the other entities of promoter's family are also engaged in same line of business, which drives the bargaining power of the company.

- **Order Backed nature of business**

The company is engaged in trading based on back-to-back orders from their customers and suppliers. The price is fixed before the shipment takes place. With respect to purchases, the entity opens a 180 days Letter of Credit in favour of suppliers.



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Meanwhile, it generally gives credit to its customers of a similar period, resulting in minimal funds being blocked in working capital.

- **Conservative capital structure**

The company has almost nil debts on its books except subordinated unsecured loans and vehicle loan as on March 31, 2020 indicating its conservative capital structure.

- **Steady demand prospects of edible oil industry**

The edible oil production in India has remained stagnant over the years, which is insufficient to fulfil the domestic requirements of edible oil. Consequently, the country's dependence on imports has increased over the years and currently around 65-70% of the domestic edible oil requirements are met through imports. The same provides ample growth opportunities to traders like AAIPL to scale-up the business though stiff competition exists.

Key Rating Weaknesses

- **Short track record and moderate scale of operations**

The entity have effectively commenced operation only from Q4FY18, reflecting a very nascent stage of operation. However, the company witnessed an increase in revenue by 68% in FY20 and operating revenue stood at Rs. 120.02 crore whereas it stood at Rs. 71.05 crore in FY19.

- **Thin Profitability**

On account of trading nature of AAIPL and intense market competition due to limited entry barriers and highly fragmented nature of industry, company's EBITDA and PAT margin has traditionally remained low. EBITDA margin of company has decreased to 2.43% in FY20 (P.Y. 3.55%) on account of increase in cost of procuring crude palm oil. Along with that, PAT margin has also decreased to 0.37% for FY20 as against 0.85% for FY19 pertaining to the increase in interest cost in line with increase in loan from body corporates and higher utilization of working capital limits. The company is purely into trading of edible oils. Thin profit margin resulted in low cash accruals for the company.

- **Exposure to risk of foreign exchange fluctuation**



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The company is exposed to risk of adverse movement in foreign exchange. It generally import from countries like Singapore, Malaysia & UAE while sales to counterparties are made on high sea basis. As the entity operates on a back to back arrangement, this risk is mitigated to a large extent.

- **Highly fragmented industry and volatility to international edible oil prices**

Owing to low entry barriers the edible oil trading industry is highly fragmented with presence of numerous organised and unorganised players. Moreover, palm oil prices are majorly influenced by the demand and supply situation in Indonesia and Malaysia and regulations in those countries. The company largely operates on back-to-back purchase and sales order basis; hence, mitigating the price risk to an extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Policy on Default Recognition

Liquidity: Poor

Liquidity of the company has been severely impacted due to the business disruption caused by Covid-19 pandemic. The delay in realization from customers led to several LC devolvement's. The company has availed moratorium for the period March 2020 to August 2020 and the irregularities (LC devolvement) during this period were not construed as a delay by the lender. In September 2020, with no improvement in liquidity post-moratorium, the company applied for One-Time Restructuring (OTR) under RBI's guidelines issued on August 06, 2020 and the same has been admitted by the lender. Whether the cash accruals are adequate to meet the restructured debt obligations shall be clear once the modalities of OTR terms are finalized. AAIPL's cash and bank balance stood at around Rs. 26.63 crore including FDR of Rs. 24.84 crore as on March 31, 2020. The FDRs were encumbered to the FLC limit availed by the company. While the current ratio stood at 1.32x as on March 31, 2020 as against 1.35x as on March 31, 2019. The company reported cash accruals to the tune of Rs. 0.45 crore during FY20 (P.Y. Rs. 0.61 crore).



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About the Company

Avyukta Agro Impex Pvt Ltd (AAIPL) is engaged in the trading of edible oils (mainly crude palm oil). AAIPL was incorporated in 2008. The entity has commenced commercial operations only from Q4FY18. The entity is promoted by Mr. Varun Gupta.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	71.05	120.02
EBITDA	2.52	2.92
PAT	0.61	0.45
Total Debt	0.00	0.18
Tangible Net worth	5.54	5.99
EBITDA Margin (%)	3.55	2.43
PAT Margin (%)	0.85	0.37
Overall Gearing Ratio (x)^	0.00	0.01

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:



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Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2015-16
1.	Non-Fund Based Facilities	Short Term	65.00 (Previously Rs. 45 crore)	IVR A4/ Negative Outlook (IVR A Four/ Negative Outlook)	Long Term	45.00* (Previously Rs. 30 crore)	IVR BB+/Stable Outlook / IVR A4+ (IVR double B Plus with Stable Outlook /IVR A Four Plus) (March 17, 2020)	IVR BB/Stable Outlook / IVR A4 (IVR double B with Stable Outlook /IVR A Four) (February 21, 2019)	IVR B+/Stable Outlook / IVR A4 (IVR Single B Plus with Stable Outlook /IVR A Four) (April 2, 2018)	-
2.	Fund Based Facilities	LT	(32.00)*	IVR BB/ Negative Outlook (IVR double B with Negative Outlook)	-	-	-	-	-	-

*Overdraft facility is the sublimit of LC Facility

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Letter of Credit	Short Term	65.00	IVR A4	IVR A4+	IVR A4	IVR A4
2.	Overdraft	Long	(32.00)*	IVR	-	-	-



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		Term		BB/Negative Outlook			

*Overdraft facility is the sublimit of Letter of Credit Facility

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Bank Facilities- Letter of Credit	-	-	-	65.00	IVR A4
Long Term Bank Facilities- Overdraft	-	-	-	(32.00)*	IVR BB/Negative Outlook

***Overdraft Facility is the sublimit of Letter of Credit Facility**