

Rating Rationale

Ajanta Soya Ltd

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities amounting to Rs. 130.00 Crs of Ajanta Soya Ltd ('ASL' or 'The Company')

Facility**	Previous Amount Rated (Rs. Crs)	Present Amount Rated (Rs. Crs)	Tenure	Previous Ratings (Apr, 2020)	Ratings Assigned*
Fund based	25.00	15.00	Long Term	BWR BBB-Stable	BWR BBB Stable Upgrade
Non Fund Based	105.00	115.00	Short Term	BWR A3	BWR A3+ Upgrade
Total	130.00	130.00	Rupees One Hundred Thirty Crores Only		

** Details of facilities given in Annexure I.

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating Action/Outlook:

Brickwork Ratings (BWR) has upgraded the long-term rating to BWR BBB (Stable) and short-term rating to BWR A3+ for the bank loan facilities of Ajanta Soya Ltd (ASL or the company).

The rating upgraded factors in the significant improvement in business and financial risk profile of the company. Business profile has improved via increase in overall capacity utilization of all products (refined oil, vanaspati oil and bakeries shortening products) as well as increase in sale price of products which has led to increase in revenue in FY20 as well as in 9MFY21 and hence higher EBITDA in FY20 as well as 9MFY21. Financial risk profile has improved led by improvement in networth to Rs. 54.08 crs and reduction of debt to Rs 2.80 crs which has improved the capital structure and debt protection metrics. The rating continues to derive comfort from the company's experienced promoters, diversified product portfolio with a wide distribution network spread across multiple states. However, these strengths are partially offset by the fluctuation in raw material prices, inherent risk of the industry along with intense competition and risk of volatility in profit margins, besides corporate guarantee issued by the company to the lenders of M/s Dhruv Global Ltd, a related party concern of ASL.

The outlook is Stable as the company was able to sustain revenues from business operations in FY20 and 9MFY21; and the essential nature of the edible oil industry which provides revenue visibility in the medium term.

BWR has principally relied upon the standalone audited financial results of ASL upto 31st March 2020, 9MFY21 unaudited results and projected financials for FY21 and FY22 and publicly available information/ clarifications provided by the company's management.

Credit Strengths

- **Substantial improvement in debt protection metrics and financial risk profile :**

Debt coverage indicators, the interest service coverage ratio (ISCR) and debt service coverage ratio (DSCR), improved to 6.14x and 1.50x, respectively, in FY20 from 0.64x and 0.65x, respectively, in FY19. In 9MFY21 the ISCR further improved to 13.08x. The gearing improved to 0.05x in FY20 from 0.53x in FY19. The adjusted gearing after considering letter of credit (LC) balance improved to 1.40x in FY20 from 1.88x in FY19. TNW improved to Rs 54.08 crs in FY20 from Rs.44.34 crs in FY19. TNW further improved to Rs. 69.75 crs in 9MFY21. The total operating income (TOI) improved by 9.42% to Rs. 760.13 Crs in FY20 from Rs. 694.65 Crs in FY19. In 9MFY21 the company has achieved an TOI of Rs 670.60 Crs which is 20% higher than 9MFY20 (Rs. 558.93 Crs); majorly on account of underlying increase in average sales realisations.

- **Established track record of operations and experienced management:**

The company commenced its operations in 1992 and has a successful track record of around three decades in the existing line of business. ASL's long track record and the extensive experience of promoters have helped establish relations with various stakeholders for its business. The company was established and is managed by the Goyal family, holding 46.85% equity stake in ASL as of March 31, 2021. Furthermore, the promoters are assisted by a team of experienced professionals in managing the company's daily business operations.

- **Diversified product portfolio and geographical presence:**

The company manufactures & sells refined oil (76.97%), vanaspati oil (20.23%) and shortening products for bakeries (2.80%). The products manufactured by the company find end use in FMCG, restaurants & household consumption. The company sells their products under brands viz. "Dhruv, Anchal & Parv" and enjoys reputed market share particularly in Northern India market i.e. Rajasthan, Delhi, Haryana, Uttar Pradesh, Punjab, Himachal, Uttarakhand, Uttar Pradesh, Jammu & Kashmir, Bihar, Madhya Pradesh & Guwahati.

- **Wide spread distribution network and reputed clientele:**

The brands of ASL are backed by an extensive distribution network as the company operates through its strategically located depots in Jaipur, Noida, Meerut, Agra. Also, ASL has penetrated deeply in the market with its emphasis on providing value goods to consumers through its C&F agents and 500 dealers who are operative in major cities and rural areas of India. ASL's client base consists of reputed players like Britannia Industries Ltd, Parle Biscuits Pvt Ltd, Anmol Bakers Ltd, ITC Limited, Bector Food Specialities Ltd, Surya Food Agro Ltd etc, in various states. Thus, the company counterparty credit risk is low.

- **Improved profitability margins:**

The operating profit margins (OPM) and net profit margins (NPM) improved to 2.40% and 1.29% respectively, in FY20 from 0.41% and -0.06%, respectively, in FY19. In

9MFY21 it further improved to 3.80% and 2.32% respectively. The profitability margins have improved due to increased TOI as well as increase in sale price of products. The company expects to sustain these margins in coming years because their products find end use in sectors like FMCG, restaurants and household consumptions etc which will grow in future.

Credit weaknesses

- **Fluctuation in raw material prices; forex risk:** The profitability is vulnerable to fluctuations in the prices of raw materials as the latter constitutes ~80% of the company's operating expenses. The main raw material of ASL is crude edible oil, prices of which generally exhibit high volatility. Company is dependent on imports for its raw material and any adverse fluctuations in raw material price is likely to impact the profitability of the company. However, in order to mitigate the risk of price volatility, ASL uses forward exchange contracts to hedge against its foreign currency exposures relating to the underlying transactions and firm commitment. Out of its total imports arounds 70% are only hedged. Since the company is not hedging its forex exposure fully, the company is exposed to volatility in forex.
- **Intense competition in the industry and low profit margins:** The edible oil industry is highly fragmented with the presence of both organized and unorganized players in the downstream segment providing similar products. The operating margins of edible oil refiners are generally low owing to low value addition involved in the business and fragmented nature of industry with the presence of a large number of small-sized players and few large players in the branded segment. Hence, the company faces competition from larger domestic players leading to intense competition.
- **Contingent liability and investment in other promoters relative companies:** The company has issued corporate guarantee of Rs. 68.10 crs (FY19: Rs.78.27 crs) to the lenders of Dhruv Global Ltd. which is an related party concern and has also invested a sum of Rs 4.70 crs in the others related party concern as on 31.03.2020. Any further investment in these companies or exposure by way of contingent liability would be the key rating sensitivity.

Analytical Approach

For arriving at the ratings, BWR has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). BWR has analysed ASL's on standalone basis to arrive at the rating.

RATING SENSITIVITIES

Upward: BWR may revise the ratings upward in the case of a sustained and substantial improvement in the scale of operations, and profit margins alongwith sustenance of current credit metrics.

Downward: BWR may revise the rating downward in the case of a sharp and sudden reduction in the revenues/EBITDA margins &/or deterioration in debt protection metrics (ISCR below 3x).

Liquidity Position (Adequate)

The company has an adequate liquidity position. There are no long term secured/unsecured borrowings from banks/NBFC as on 31st March 2020. Against a current portion of long term debt (CPLTD) of Rs 6.62 Crs in FY20, the company had a cash accruals of Rs. 14.30 Crs in FY20. The company projected to generate cash accruals of Rs. 17.01 Crs in FY21 against no scheduled debt maturities, thereby indicating an adequate liquidity position. Free cash balance stood at Rs 2.80 crs in FY20. The average utilisation of fund based and non fund based limits of the company stood at NIL and 95% respectively during the last 12 months ending 30th April 2021.

About the entity:

Ajanta Soya Ltd (ASL) was incorporated on 13th January 1992 and promoted by Mr Sushil Kumar Goyal and his brothers. The promoter group holds 46.85% equity stake in the company & remaining 53.15% is public as on March 31, 2021. The company got listed on BSE in 1993. The company is engaged in manufacturing of Vanaspati, various kinds of refined oils and shortening products for bakeries like biscuits, puffs, pastries etc. The Company sells its products under brands viz. Dhruv, Anchal and Parv. They have 1 manufacturing unit in India with a capacity of 1,20,000 metric tonnes per annum (MTPA) which is located in Bhiwadi, Rajasthan. It is an ISO certified company.

Key Financial Indicators (Standalone)

Key Financials			
	Units	31/Mar/2019	31/Mar/2020
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	694.65	760.13
OPBDIT	Rs. Crs	2.83	18.21
PAT	Rs. Crs	-0.40	9.80
Tangible Net Worth	Rs. Crs	44.34	54.08
Total Debt/TNW	Times	0.53	0.05
Current Ratio	Times	1.18	1.34

Key covenants of the instrument/facility rated: Not Applicable

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

S.No	Facility	Current Rating (2021)				Rating History		
		Type	Tenure	Amount (In Crs)	Rating	07 Apr 2020	2019	2018
1	Bank Loan	Fund Based	Long Term	15.00	BWR BBB Stable Upgrade	BWR BBB-Stable	-	-
		Non Fund Based	Short Term	115.00	BWR A3+ Upgrade	BWR A3	-	-
Total				130.00	Rupees One Hundred Thirty Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

Simple. For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Manufacturing Sector Entities](#)
- [Short Term Debt](#)

Analytical Contacts	
Shivam Bhasin Senior Rating Analyst Board: +911123412232 shivam.b@brickworkratings.com	Tanu Sharma Director – Ratings Board: +911123412232 tanusharma@brickworkratings.com
1-860-425-2742	I media@brickworkratings.com

Ajanta Soya Ltd

**ANNEXURE I
Details of Bank Facilities rated by BWR**

Sl. No.	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	CC	15.00	-	15.00
	ILC/FLC	-	103.00	103.00
	BG	-	2.00	2.00
	CEL	-	10.00	10.00
TOTAL				130.00

Total: Rupees One Hundred Thirty Crores Only

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