

Rating rationale
Ajooni Biotech Ltd

Long-term rating upgraded

Rating action

Total bank loan facilities rated	Rs 10 crore
Long-term rating	CRISIL BB+/Stable (upgraded from 'CRISIL BB/Stable')

Note: None of the directors on the board of CRISIL Ratings Ltd are members of the rating committee and thus do not participate in discussion or assignment of any rating. The board of directors also does not discuss any rating at its meetings.

1 crore = 10 million

Refer annexure for details of instruments and bank facilities

Detailed rationale

CRISIL Ratings has upgraded its rating on the bank facilities of Ajooni Biotech Ltd (ABL) to '**CRISIL BB+/Stable**' from '**CRISIL BB/Stable**'.

The upgrade in rating reflects a belief that the business risk profile of ABL will continue to improve, driven by consistent growth in revenue and operating profitability. Revenue is expected to increase to Rs 80 crore in fiscal 2024, from Rs 74.49 crore in fiscal 2023, led by an increase in sales to existing customers.

The operating margin was reported at 1.06% for the first nine months of fiscal 2024, declining from 3.83% in fiscal 2023 and 4.02% in fiscal 2022, due to inventory loss of Rs 1.9 crore in flood; the margin is projected at 3.5-4.0% for fiscal 2024 as loss will be set off from the year-end inventory cost. The margin is expected at 4.5-6.0% over the medium term, aided by the incremental sales of feed supplements (that provide higher margins of 9-10%) along with working on multiple cost efficiency methods regularly.

Networth is expected at around Rs 84 crore as on March 31, 2025, as the company is raising additional capital through rights share issue of Rs 40 crore in fiscal 2025 (networth was Rs 41.67 crore as on March 31, 2023). The capital structure further remains supported by limited reliance on external debt; thus, gearing is expected to be low at 0.09 time and total outside liabilities to tangible networth (TOL/TNW) ratio at 0.33 time as on March 31, 2024 (against 0.12 time and 0.40 time, respectively, as on March 31, 2023). Debt protection metrics should continue to be healthy, with interest coverage ratio likely at around 7 times and net cash accrual to adjusted debt (NCAAD) ratio at 0.6 time in fiscal 2024.

The rating reflects the extensive experience of the promoter, established customer relationship and comfortable financial risk profile. These strengths are partially offset by exposure to fluctuations in raw material prices.

Key rating drivers and detailed description

Strengths

Extensive experience of the promoter and established customer relationships

The promoter has more than a decade of experience in the animal feed segment; his strong understanding of market dynamics and healthy relationships with suppliers and customers should continue to support the business. ABL entered into an agreement with Indian Farmers Fertiliser Cooperative Ltd (IFFCO; 'CRISIL AA+/Stable/CRISIL A1+') in March 2020 to produce IFFCO branded animal feed.

Comfortable financial risk profile

Networth is expected at around Rs 84 crore as on March 31, 2025, as the company is raising additional capital through rights share issue of Rs 40 crore in fiscal 2025 (networth was Rs 41.67 crore as on March 31, 2023). The capital structure further remains supported by limited reliance on external debt; thus, gearing is projected low at 0.09 time and TOL/TNW ratio at 0.33 time as on March 31, 2024 (against 0.12 time and 0.40 time, respectively, a year ago). Debt protection metrics should continue to be healthy, with interest coverage ratio likely at around 7 times and NCAAD ratio at 0.6 time in fiscal 2024.

The company is planning to open a new factory for capacity enhancement with total capital expenditure (capex) of Rs 16.5 crore funded by right issues of shares; the factory is expected to become operational by April 2025. Any large, debt-funded capex, impacting the financial risk profile, will remain monitorable.

Weakness

Susceptibility to fluctuations in raw material prices

Operating margin remains volatile (3-4% during the three fiscals through 2023) because of fluctuations in the cost of key raw materials (de-oiled rice bran, maize, bran and mustard). Furthermore, the ability to pass on any increase in input cost is limited on account of high fragmentation. However, the margin is likely to be 4.5-6.0% over the medium term, driven by the incremental sales of feed supplements which provides higher margins of 9-10% and simultaneously working on multiple cost efficiency methods regularly. Sustaining profitability at this level will remain a key monitorable.

Liquidity risk profile: Adequate

Bank limit utilisation was 53.41% for the 12 months through December 2023. Cash accrual is expected at Rs 2-4 crore per annum, against yearly debt obligation of Rs 0.5-0.6 crore over the medium term. Current ratio was healthy at 2.29 times on March 31, 2023. Low gearing and comfortable networth will also aid financial flexibility.

Outlook: Stable

ABL will continue to benefit from the extensive experience of its promoter and his established relationship with clients.

Rating sensitivity factors

Upward scenario

- Revenue increasing to more than Rs 150 crore and steady operating margin, leading to healthy net cash accrual
- Sustenance of financial risk profile, with gearing below 1 time

Downward scenario

- Revenue declining by over 25% and operating margin dropping below 4%, resulting in lower-than-expected net cash accrual
- Large, debt-funded capex

About the company

ABL was incorporated in February 2010 and is promoted by Mr Jasjot Singh (chairman and managing director). It manufactures a variety of compound animal feed such as cattle feed, cattle feed chips, camel feed, cotton oil cake, mustard oil cake and a wide range of feed supplements. The company is listed on the National Stock Exchange

Key financials

As on/for the period ended March 31		2023	2022
Operating income	Rs crore	74.58	74.07
Reported profit after tax (PAT)	Rs crore	0.87	1.05
PAT margin	%	1.17	1.42
Adjusted debt/adjusted networth	Times	0.12	0.33
Interest coverage	Times	5.97	5.51

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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Annexure - Details of instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned
							with outlook
NA	Cash credit	NA	NA	NA	6.7	NA	CRISIL BB+/Stable
NA	Term loan	NA	NA	March-2025	2.3	NA	CRISIL BB+/Stable
NA	Proposed long-term facility	NA	NA	NA	1	NA	CRISIL BB+/Stable

Annexure - Rating history for past three years

Current		2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding amount	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based facilities	LT	10.0	CRISIL BB+/Stable	--	--	02-02-23	CRISIL BB/Stable	--	--	--

All amounts are in Rs crore

Annexure - Details of bank lenders/facilities

Facility	Amount (Rs crore)	Name of lender	Rating
Cash credit	6.7	HDFC Bank Ltd	CRISIL BB+/Stable
Proposed long-term bank loan facility	1	Not applicable	CRISIL BB+/Stable
Term loan	2.3	HDFC Bank Ltd	CRISIL BB+/Stable

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