



Press Release
ABHAY SOLVENTS PRIVATE LIMITED
December 18, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.60.00 Cr bank facilities of Abhay Solvents Private Limited (ASPL). The outlook is '**Stable**'.

Rating Rationale

The rating assigned takes into account the established track record of the company of more than three decades in the solvent extraction and refining industry and the experience of the promoters of around three decades in the refined oil industry. The rating also factors in the comfortable scale of operations marked by operating income of Rs.402.74 Cr in FY2023. The rating also factors in the moderate levels of coverage indicators (ICR: 2.31 times and DSCR: 1.22 times as on March 31, 2023). Further, the company has an efficient working capital management marked by GCA days of 54 days in FY2023. The adequate liquidity position, as evident from the moderate utilization of fund-based limit at ~83 per cent, further supports the rating. These strengths are partly offset by low profitability margins, however, Acuite notes that with the stabilization of the captive solar power plant, the margins are expected to improve in the medium term. The rating further remains constrained by inherent risks associated with the agriculture-based commodity business, such as availability of raw material or fluctuations in prices.

About the Company

Incorporated in 1993, Abhay Solvent Private Limited (ASPL) is a Karnataka based company promoted by Mr. Abhay Kumar Mehta and Praveen Kumar Mehta, among others. It is engaged in the extraction and refining of rice bran oil. The total installed capacity for solvent plant is 700 TPD and the installed capacity for Refinery is 50 TPD.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of ASPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The company has an established track record of more than three decades in solvent extraction and refining. The long track record of operations of the company has helped it to

establish long standing relationship with customers and suppliers over the period. Further, the promoters of the company have around three decades of experience in the edible oil industry.

Acuite believes that a long track record of operations and extensive experience of the management shall support the business risk profile to an extent.

Steady scale of operations

The operating income of the company increased to Rs.402.74 Cr in FY2023 as against Rs.353.87 Cr in FY2022 on account of healthy demand and better realizations in De-Oiled Rice Bran Oil. Further, the company has reported a revenue of Rs.105.73 Cr in Q1FY24. Acuite believes that the scale of operations of the company is likely to be sustained in the near to medium term.

Efficient working capital management

The company has an efficient working capital management marked by GCA days of 54 days in FY2023 as against 59 days in FY2022 on account of efficient debtor and inventory management. The inventory days stood at 19 days in FY2023 as compared to 21 days in FY2022; debtor period improved to 25 days in FY2022 as against 30 days in FY2022. Acuite believes that the working capital management of the company may continue to remain almost at the same level over the medium term as evident from comfortable levels of inventory and debtors.

Weaknesses

Low profitability margins owing to volatility in raw material prices

Though, the operating margin of the company improved in FY23, it stood moderate at 1.46 per cent in FY23 as compared to 1.37 per cent in FY22. The raw material cost is the major cost driver accounting for ~89% of total sales. The Indian edible oil industry is largely price sensitive, with players catering primarily to regional demand to avoid high marketing and distribution costs. Lower absorption of marketing costs or inability to pass on raw material price increase might exert pressure on the operating margins of players. However, the company has recently installed a 2 MW solar power plant which shall become operational from October'23, thereby the operating margins are expected to improve in the near to medium term. The PAT margin stood at 0.45 times and ROCE stood at 6.96 per cent in FY23. Operations are exposed to inherent risks associated with the agriculture-based commodity business, such as availability of raw material or fluctuations in prices. When monsoon is erratic, quality seeds are in short supply, which leads to high input costs and adversely affects the margins of players. Oil prices also depend on global demand-supply and movement in the prices of other edible oils.

Acuite believes scalability of the operations along with improvement in the profitability margins will remain a key monitorable.

Average financial risk profile

The company's financial risk profile is marked by a moderate net worth base, high gearing and moderate debt protection metrics. The tangible net worth of the company moderated to Rs.26.19 Cr as on March 31, 2023 from Rs.26.45 Cr as on March 31, 2022 due to changes in foreign exchange fluctuation reserve account. Gearing of the company stood increased at 1.87 times as on March 31, 2023 as against 1.13 times as on March 31, 2022. The gearing is expected to increase in the near to medium term as the company has availed a new term loan of Rs.11.00 Cr for setting up a Solar Power Plant. The total cost of the project was Rs.14.58 Cr, which was funded partly through promoters' contribution of Rs.3.58 Cr and the remaining Rs.11.00 Cr was funded through bank loan. Out of Rs.11 Cr term loan, Rs.2.82 Cr was disbursed in FY23 itself, while the remaining Rs.8.18 Cr was disbursed during FY24. The project was completed in August'23. Moreover, the moderate debt protection metrics is marked by Interest coverage Ratio of 2.31 times as on March 31, 2023 as against 3.95 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.22 times as on March 31, 2023 as against 1.57 times as on March 31, 2022. Though the debt levels are expected to increase in the near term, the debt protection metrics would continue to remain comfortable to service its debt obligations timely. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.95 times as on March 31, 2023 as against 2.45 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.07 times as on March 31, 2023 as against 0.10 times as on March 31, 2022.

Acuite believes that going forward the financial risk profile of the company is likely to be

sustained backed by steady accruals and no major debt funded capex plans.

Rating Sensitivities

- Sustenance of the scale of operations along with significant improvement in the profitability margins.
- Elongation of working capital cycle

All Covenants

None.

Liquidity Position Adequate

The company has an adequate liquidity position marked by Net Cash Accruals of Rs.3.32 Cr as on March 31, 2023 as against current maturities of long-term debt of Rs.2.24 Cr. Further, the company is expected to generate sufficient net cash accruals to repay its debt obligation in the near to medium term. The fund-based limits remained moderately utilized at 83.91 per cent for the last six months ended September'23. The current ratio stood moderate at 1.16 times as on March 31, 2023. The cash and bank balance stood at Rs.0.21 Cr as on March 31, 2023. Moreover, the efficient working capital management of the company is marked by GCA days of 54 days in FY2023 as against 59 days in FY2022. Acuité believes that going forward the company is likely to maintain an adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on ASPL will remain 'Stable' over the medium term on account of its long operational track record, experienced management and healthy scale of operations. The outlook may be revised to 'Positive' in case the company registers any significant improvement in its scale of operations or profitability margins or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or further deterioration in the profitability margins or deterioration in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	402.74	353.87
PAT	Rs. Cr.	1.82	1.60
PAT Margin	(%)	0.45	0.45
Total Debt/Tangible Net Worth	Times	1.87	1.13
PBDIT/Interest	Times	2.31	3.95

Status of non-cooperation with previous CRA (if applicable)

None.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Available.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	37.50	ACUITE BB Stable Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.30	ACUITE BB Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.70	ACUITE BB Stable Assigned

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.