

### Sri Kanakadurga Oil Mill: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	12.00	SMERA B/Stable (Assigned)
Proposed	2.40	SMERA B/Stable (Assigned)

SMERA has assigned rating of '**SMERA B**' (read as **SMERA B**) to the Rs.14.40 crore bank facilities of Sri Kanakadurga Oil Mill (SKOM). The outlook is '**Stable**'.

The rating derives comfort from the experienced management, improving operating income and profitability. However, the rating is constrained by the below average financial risk profile, competitive agro processing industry and susceptibility of margins to fluctuations in raw material prices.

SKOM is headed by Mr. G. Srinivas Rao and Mrs. G. Aruna Devi (Promoters) who possess over two decades of experience in the edible oil industry. The firm's operating income registered healthy revenue growth rate with CAGR of 9.07 per cent for the period of FY2013-16 on the back of increase in order book value. The operating income stands at Rs.65.44 crore in FY2016 (Provisional) as compared to Rs.61.27 crore in FY2015 and Rs.57.50 in FY2014.

The financial risk profile is marked by low net worth of Rs.3.51 crore as on March 31, 2016 (Provisionals). The rating is also constrained by the stretched liquidity profile as cash accruals are tightly matched with repayment obligations. The ICR stands at 1.19 times for FY2015-16 (Provisionals) as against 1.25 times in FY2014-15. Further, the gearing stands at 3.84 times as on March 31, 2016 (Provisionals).

Besides, the profits of the firm are susceptible to fluctuations in raw material (crude edible oil) prices. The margins of the firm improved over the years. In FY2013 the EBITDA stood at 1.06 per cent that rose to 1.50 per cent in FY2014 and 1.96 per cent in FY2015. Further, as per FY2015-16 (Provisionals), EBITDA margins stands at 2.76 per cent. The PAT margin stood at 0.12 per cent compared to 0.10 per cent in FY2015.

SKOM operates in the intensely competitive agro processing industry. The edible oil extraction and refinery companies in India are dependent on crude edible oil imports. Besides, the low capital intensive nature of business leads to several players entering the edible oil business.

#### Rating Sensitivity Factors

- Volatility in raw material prices impacting profitability
- Sustainable and substantial growth in revenues with improvement in profitability
- Improvement in the financial risk profile

#### Outlook-Stable

SMERA believes that SKOM will maintain a stable outlook over the medium term owing to the experienced management and established presence of the firm in the edible oil industry. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially while improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins register a decline due to fluctuations in raw material prices resulting in further deterioration in the financial risk profile.

**Criteria applied to arrive at the rating:**

- Manufacturing entities

**About the Firm**

The Karnataka-based SKOM established in April 2003 is headed by Mr. G. Srinivasa Rao and G. Aruna Devi who possess experience of around 15 years in the industry. The firm has installed capacity of 100 tons/day with current utilisation of 60 per cent. The products are sold under the 'Sun Dhara, Aroghya Dhara, KDM Gold' and 'Sun Vishwas' brand names.

The firm registered operating income of Rs.61.27 crore for FY2014-15 with profit after tax (PAT) of Rs.0.06 crore in FY2015 as against operating income of Rs.57.50 crore with profit after tax (PAT) of Rs.0.06 crore. Further, as per FY2015-16 (Provisionals), profit after tax (PAT) stands at Rs.0.08 crore on operating income of Rs.65.44 crore.

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**ABOUT SMERA**

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