

Press Release

Padmashri Oil Refineries

August 21, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.40 Cr
Long Term Rating	SMERA B/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B** (read as SMERA B)' on the Rs. 9.40 crore bank facilities of Padmashri Oil Refineries (POR). The outlook is '**Stable**'.

Padmashri Oil Refineries (POR) is a Tamil Nadu-based partnership firm established in 2003 by Mr. Suresh, Mrs. Shanthi, Mr. Sivakumar and Mrs. Vidhya. The firm is engaged in the refining of sunflower oil and trading of edible oil (groundnut, palmolein). The firm sells its products under the GPS Sunmill, Goodness Groundnut Oil and Oleina Palmalin Oil brand names through its network of distributors in Vellore and Chennai. Trading contributes around 75 percent to the total revenue with the balance coming from refining. The refinery is located at Vellore, Tamil Nadu and has an installed capacity of 7000 tonnes per annum.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters

The firm is led by Mr. Suresh, Partner who possesses more than four decades of experience in edible oil manufacturing and refining.

Improvement in revenue

The firm reported operating income of Rs. 35.46 crore for FY2016 as compared to Rs. 18.28 crore in the previous year registering ~96 percent growth. The reason for significant growth in operating income is the expansion of operations to Chennai. Earlier, the operations were limited to a radius of around 150 to 200 km from its unit. Further, as informed by the management, the firm reported operating income of Rs. 45.00 crore (Provisional) for FY2017.

Weaknesses:

Below average financial risk profile

The financial risk profile is below average marked by low net worth of Rs.1.26 crore as on 31 March, 2016 as against Rs. 1.16 crore in the previous year. The firm is highly leveraged with gearing of 5.45 times as on 31 March, 2016 compared to 5.02 times in the previous year. The interest coverage ratio has been inadequate at 1.16 times in FY2015-16 as against 1.15 times in the previous year. The total liabilities to tangible networth (TOL/TNW) stood at 8.84 times as on 31 March, 2016 compared to 6.49 times in the previous year.

Working capital intensive operations

The operations are working capital intensive marked by high gross current assets (GCA) of 126 days in FY2016 as against 171 days in the previous year. The stretched GCA days are on account of high inventory days of 70 and debtors days of 47 for FY2015-16. Further, the liquidity is stretched since the cash credit limit has been fully utilised during the last six months ended 30 April, 2017.

Thin profit margins are susceptible to volatility in raw material prices

The firm has reported decline in operating margin to 2.63 percent for FY2016 as against 3.93 percent in FY2015. The firm maintains high level of inventory throughout the year, exposing its profitability to fluctuations in raw material prices. Further, the prices of raw material i.e. edible oil are highly volatile and influenced by multiple factors such as international commodity prices, demand-supply dynamics and macro-trends.

Partnership based constitution

The firm is vulnerable to risk of capital withdrawal due to its partnership constitution.

Competitive and fragmented nature of business

The firm is exposed to intense competition on account of low entry barriers in the edible oil refining business.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that POR will maintain a stable outlook in the medium term and benefit from its established track record of operations and experienced promoters. The outlook may be revised to 'Positive' in case the firm achieves significant growth in revenue, improvement in profitability or financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenues and decline in profitability or deterioration in the financial risk profile and working capital cycle.

About the Rated Entity -Key Financials

For FY2015-16, POR reported profit after tax (PAT) of Rs. 0.08 crore on operating income of Rs. 35.18 crore as against PAT of Rs. 0.06 crore on operating income of Rs. 18.28 in the previous year. The networth stood at Rs. 1.26 crore as on 31st March, 2016 as against Rs. 1.16 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

*Annexure - Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A	N.A	N.A.	9.00	SMERA B/Stable (Assigned)
Proposed Cash Credit	N.A	N.A	N.A.	0.40	SMERA B/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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