

Press Release

Sri Aishwarya Refinery Private Limited

November 12, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 34.62 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/Negative)
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 34.62 crore bank facilities of SRI AISHWARYA REFINERY PRIVATE LIMITED (SAPL). Acuité has revised the outlook to '**Stable**' from '**Negative**'.

The rating downgrade is on account of elongation in debtor days to 60 days in FY2019 as against 44 days in FY2018. In addition, the company has recorded lower than expected operating performance in terms of both turnover and profitability. The profitability has shown a declining trend marked by operating margin of ~2.01 percent in FY2019 as compared to ~2.06 percent in FY2018 and ~2.34 percent in FY2017. Further, build-up in unrealized subsidy receivable continues resulting in stretched cash flow from operations.

Incorporated in 2011, SAPL is a Hyderabad-based company promoted by Mr. Kailash Chand Maniyar. The company is engaged in manufacturing of Palm Refined Oils & its products, Rice Bran and Cotton Seed Refined Oils. The company has an installed capacity of 200 MT per day in Hyderabad.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SAPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

SAPL was promoted by Mr. Kailash Chand Maniyar who possess industry experience of more than two decades. Before promoting SAPL, the promoter was engaged in trading of edible oil. Currently, the day to day operations are managed by Mr. Vijay Maniyar who is well experienced second line of management.

Acuité believes that SAPL will sustain the existing business profile on the back of extensive experience of promoters and its customer and supplier relationships.

• Diversified product portfolio

The company has a diversified product portfolio with over five different oil. SAPL product portfolio contains Palmolein oil, Cottonseed oil, Sunflower oil, Rice bran oil and crude palm oil. These products accounts for ~93 percent of the total revenues of SAPL in FY2019. SAPL also leverages on the wide distribution by having dealers in Telangana, Chhattisgarh and Maharashtra.

Acuité believes that SAPL will continue to benefit from diversified product portfolio which will in turn improve the revenue and sustenance of its profitability margins.

Weaknesses

• Average financial risk profile

SAPL's financial risk profile is average, marked by a moderate networth and gearing and average debt protection metrics. The net worth of the company stood moderate at Rs. 20.00 crore as on 31 March, 2019. The networth includes Rs.7.01 crore of unsecured loans from promoters which are considered as quasi

equity. The gearing (debt-equity) stood moderate at 1.18 times as on March 31, 2019 against 1.03 times as on March 31, 2018. The total debt outstanding of Rs. 23.53 crore consists of long term debt of Rs. 3.63 crore and short term debt obligations of Rs. 19.90. The leverage and coverage indicators continue to remain average marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood at 1.69 times and DSCR stood at 1.13 times in FY2019. Total outside liabilities to tangible net worth has remained moderate at 2.75 times as on 31 March, 2019 as against 2.15 times as on 31 March, 2018. The debt-EBITDA has deteriorated to 4.32 times for FY2019 as against 3.31 times for FY2018 due to declining operating profitability.

Acuite believes that the growth in revenue, sustenance of its profitability margins and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

• Profitability susceptible to volatility in raw material prices

Oilseed production in India is insufficient to meet rising demand in India; thus, gap between demand and supply is generally met through imports. Thus, prices are determined by global forces of demand and supply which results in volatility in prices both at input level as well as at end product level. Moreover, government intervenes at regular intervals in the form of changes in duty structure to protect the interest of refiners and to narrow the gap between duties on crude oil and refined oil. Also, oilseed production is exposed to vagaries of nature. The SAPL's raw material cost accounts for ~90 per cent in its cost of sales. Thus, its profitability is exposed to volatility in raw material prices.

Rating Sensitivity

- Stretch in Gross Current Asset (GCA) to 85-100 days.
- Substantial improvement in scale of operation (~Rs.290-350.00 crores), while improving profitability margin of around 3.00-3.50 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

SAPL has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 1.7 crore – Rs. 1.8 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs. 1.1- 1.2 crore over the same period. The cash accruals are estimated to improve to Rs. 2.0 – 3.0 crores during 2020- 22, while its repayment obligations are expected to be Rs.1.1 crore over the same period. The company maintains cash and bank balances of Rs. 0.14 crore as on March 31, 2019. The current ratio stood moderate at 1.30 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuite believes that SAPL's outlook will remain 'Stable' over the medium term from its experienced management and diversified product portfolio. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its financial risk profile and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	257.76	266.84	241.61
EBITDA	Rs. Cr.	5.18	5.50	5.66
PAT	Rs. Cr.	1.17	1.20	1.33
EBITDA Margin	(%)	2.01	2.06	2.34
PAT Margin	(%)	0.45	0.45	0.55
ROCE	(%)	11.68	14.63	16.72
Total Debt/Tangible Net Worth	Times	1.18	1.03	0.95
PBDIT/Interest	Times	1.69	1.65	1.69
Total Debt/PBDIT	Times	4.32	3.31	2.63

Gross Current Assets (Days)	Days	70	51	49
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Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Aug-2018	Cash Credit	Long Term	12.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB- / Negative (Assigned)
	Term Loan	Long Term	3.87	ACUITE BBB- / Negative (Assigned)
	Term Loan	Long Term	0.75	ACUITE BBB- / Negative (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
06-Jun-2017	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/Negative)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.87	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/Negative)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/Negative)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Downgraded from ACUITE A3)

[^]Sub limit – Letter of Credit of Rs.5.00 crore of Cash Credit.

*Sub limit – Cash Credit of Rs.10.00 crore of Letter of Credit.

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About Acuite Ratings & Research:

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