

Press Release

Geeta Refinery Private Limited (GRPL)

08 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs.50.00 crore bank facilities of Geeta Refinery Private Limited (GRPL). The outlook is '**Stable**'.

GRPL incorporated in 1998, is a Maharashtra-based company promoted by Mr Atul Mantri and Mr. Pradeep Totala. The company is engaged in the refining of soya crude, cotton apart from trading of Palmolein and Sunflower oil. The company has installed capacity of 175 metric tonnes per day (MTPD). The company also manufactures briquette coal.

Analytical approach:

SMERA has considered the consolidated business and financial risk profiles of Geeta Refinery Private Limited (GRPL) and Bhakti Extractions Private Limited (BEPL) hereinafter referred to as the Geeta Group. The consolidation is mainly on account of similarities in the lines of business, strong operational, financial synergies and common management.

Key rating drivers

Strengths

Experienced management and established track record of operations

The group, promoted by Mr. Atul O. Mantri and Mr. Pradeep Totala has track record of almost two decades. The promoters have extensive industry experience and have established long term relations with customers. The products are sold under the brand names of 'Abhay', 'Krishi', 'Shristi' brand names.

Above average financial risk profile

The Geeta Group has above average financial risk profile marked by tangible net worth of Rs. 60.07 crore as on 31 March, 2017 as against Rs.42.63 crore as on 31 March, 2016. The increase in net worth was mainly on account of addition of quasi equity by promoters. The net worth includes unsecured loan of Rs. 25.01 crore as on 31 March, 2017 considered as quasi equity. The adjusted gearing stood at 1.41 times as on 31 March, 2017 which improved from 1.87 times as on 31 March, 2016. The debt of Rs.84.95 crore mainly consists of term loans of Rs.3.17 crore, preference share capital of Rs. 12.50 crore and working capital borrowings of Rs. 69.28 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 1.60 times for FY2017 as against

1.77 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.46 times for FY2017 as against 1.54 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.88 times as on 31 March, 2017 as against 2.31 times as on 31 March, 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31 March, 2017 compared to 0.08 times as on 31 March, 2016. Going forward, SMERA expects the financial risk profile to deteriorate marginally in the near term on account of addition of preference shares of Rs. 3.00 crore and moderate debt funded capex plans.

Moderate working capital cycle

The group has moderate working capital cycle marked by high Gross Current Assets (GCA) of 95 days in FY2017 compared to 72 days in FY2016. The GCA days are mainly dominated by inventory of 57 days in FY2017 and 60 days in FY2016. The average cash credit utilisation for the past six months stood at ~80 percent. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Strategic plant location

The group is mainly into processing of soya and cotton oil at Jalna, Maharashtra. The manufacturing facility is in close proximity to soya and cotton growing regions.

Weaknesses

Low profit margins inherent in the edible oil business

The group operates in the edible oil market, characterised by thin margins due to low value additive nature and intense competition. In FY2017, the operating margin stood at 3.03 percent as against 2.91 percent in FY2016. The decline in operating margin was mainly on account of increase in raw material cost. The Profit after Tax (PAT) margins stood at 0.34 percent in FY2017 as against 0.36 percent in FY2016. The decrease in PAT margins was mainly on account of increase in interest cost.

Profit margins are susceptible to volatility in raw material prices

Since prices are determined by the forces of demand and supply, the profit margins are susceptible to fluctuations in the prices at input level as well as at end product level. Moreover, there are changes in duty structure that need to be taken into account. Besides, soya is an agro commodity and is exposed to the vagaries of nature.

Raw material cost accounts for ~94 percent of the cost of sales of the group. Thus, profitability is susceptible to volatility in raw material prices.

Ongoing debt funded capex

The group is currently in the process of setting up the plant for processing of Lecithin, a by-product of soya oil to manufacture phosphine cholinesterase. The total project cost is Rs. 13.00 crore to be funded by term loan of Rs.6.25 crore, preference shares of Rs.3.00 crore and the rest from internal accruals. The project is expected to be completed by February 2018. Notwithstanding the benefits of the debt funded capex, timely completion and stabilisation will remain key rating sensitivities.

Competitive and fragmented industry

The group operates in a highly competitive and fragmented edible oil industry and faces competition from established brands as well as unorganised players. This can impact the bargaining power of the company and affect margins.

Outlook – Stable

SMERA believes that the Geeta Group will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Group

Incorporated in 2004, BEPL is a Maharashtra-based company promoted by Mr. Atul O. Mantri and Mr. Omprakash A. Mantri. The company is engaged in the crushing and processing of soya bean seeds for extraction of soya de-oiled-cake (DOC), soya grits and soya wash oil. The installed capacity stands at 400 metric tonnes per day (MTPD).

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	538.49	554.18	438.45
EBITDA	Rs. Cr.	14.30	16.13	16.17
PAT	Rs. Cr.	1.84	2.00	1.76
EBITDA Margin	(%)	2.66	2.91	3.69
PAT Margin	(%)	0.34	0.36	0.40
ROCE	(%)	11.10	10.40	16.70
Total Debt/Tangible Net Worth	Times	1.41	1.87	2.18
PBDIT/Interest	Times	1.60	1.77	1.64
Total Debt/PBDIT	Times	4.65	4.74	5.15
Gross Current Assets (Days)	Days	95	72	86

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto 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	Not Applicable	Not Applicable	Not Applicable	32.00	SMERA BBB-/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.82	SMERA BBB-/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.25	SMERA BBB-/ Stable (Assigned)
Cash Credit (Proposed)	Not Applicable	Not Applicable	Not Applicable	9.93	SMERA BBB-/ Stable (Assigned)

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ABOUT SMERA

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