

Press Release

Sanjay Soya Private Limited

April 03, 2020

Rating Assigned and Reaffirmed



Total Bank Facilities Rated*	Rs. 28.14 Cr. (Enhanced from 23.14 Cr.)
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to Rs. 23.14 crore bank facilities and assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.5.00 crore bank facilities of Sanjay Soya Private Limited (SSPL). The outlook is '**Stable**'.

SSPL was incorporated in 2004. The current Directors are Mr. Vinod Dwarkadas Agrawal and Mr. Dhiraj Vinodkumar Agrawal. It is engaged in refining of soya bean oil and cotton seed oil, sunflower oil and cotton seed oil. During FY18, the company started with refining of sunflower oil along with refining of soya bean oil and also produces Soya Lecithin. It procures its raw materials from various local players and also from its group company Maharashtra Solvent Extraction Private Limited (MSPL). The installed capacity for refining of soya bean oil and sunflower oil is 200 MT per day and for cotton seed oil is 150 MT per day, which is utilised at around 70 percent. SSPL markets its refined cotton seed oil under the brand name 'Sanjay Supreme', refined soyabean oil under the brand name 'Soya Drop' and refined sunflower oil under the brand name 'Supreme Sunshine'. SSPL sells its product to various local players and does bulk sales to retail food chains including Haldiram Foods International Limited, Marico Limited, Pravin Masalewale and Chordia Food Products Limited.

Maharashtra Solvent Extraction Private Limited (MSPL) was incorporated in 2004. The current Directors are Mr. Anil Dwarkadas Agrawal, Mr. Rajwardhan Raghujirao Kadambande, Mr. Sanjay Kashinath Agrawal and Mr. Kamlesh Prasad Sinha. The company is engaged in extraction of crude soya bean oil and soya bean de oiled cake. It is also engaged in trading of soya bean de oiled cake which is used as cattle feed in poultry. MSPL procures its raw materials from local farmers in Maharashtra and Madhya Pradesh. The installed capacity is around 1200 MT per day and is utilised to the tune of around 90 percent, i.e., 1080 MT per day. MSEPL exports de-oiled cakes to various countries such as Indonesia, Kuwait, and Thailand to name a few. MSPL faces cyclical and volatility in raw material supply since Soya bean is a one-time crop produced during October to January.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Maharashtra Solvent Extraction Private Limited (MSPL) and Sanjay Soya Private Limited (SSPL) together referred to as the 'Maharashtra Solvent Group' (MSG). The consolidation is in view of the common management and strong operational and financial linkages between the entities.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters**

The group is promoted by Mr. Anil Dwarkadas Agrawal, Mr. Rajwardhan Raghujirao Kadambande, Mr. Sanjay Kashinath Agrawal, Mr. Vinod Dwarkadas Agrawal, Mr. Dhiraj Vinodkumar Agrawal and Mr. Kamlesh Prasad Sinha. The promoters have extensive experience of around four decades in the same line of business. MSPL is engaged in the business of extraction of crude soya bean oil and soya bean de oiled cake and SSPL is engaged in refining of soya bean oil, sunflower oil and cotton seed oil. The promoters' extensive experience is also reflected through the healthy revenue growth over the

last 4 years through FY 2019. The group's revenue grew at a CAGR of ~38 percent to Rs. 1715.75 crore over the aforementioned period. Further, the management of the group, over the years, has built a healthy relationship with major customers such as Haldiram Foods International Limited, Marico Limited, Premium Chick Feeds Pvt. Ltd. and Chordia Food Products Limited. Acuite believes that the company will continue to benefit through the promoters' extensive industry experience over the medium term. Acuite believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

- **Healthy financial risk profile**

The financial risk profile is marked by healthy net worth, moderate gearing and debt protection measures. The net worth of the group is healthy at around Rs. 62.55 crore as on 31 March, 2019 as against Rs. 54.28 crore as on 31 March, 2018 increase in the net worth is on account of increasing revenue and profitability, leading to higher accretion to reserves. The group has followed a conservative financial policy as reflected by peak gearing of 2.46 times over the last three years through FY2019. The gearing of the group stood around 1.62 times as on March 31, 2019 as against 1.44 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.51 times as on 31 March, 2019 as against 1.98 times as on 31 March, 2018. The gearing of the group is estimated to remain in the range of 1.00-1.50 times on account of absence of any debt funded capex plans over the medium term.

The healthy revenue levels coupled with stable operating margins have resulted in healthy debt protection measures. The profitability margins of the group have remained fairly stable over the past three years ended with the operating margin ranging between 1.50 to 2.50 percent through FY2019. Interest Coverage Ratio (ICR) remained healthy at 3.10 times in FY2019 and 2.84 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on 31 March, 2019 as against 0.16 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 2.51 times in FY2019 as against 2.05 times in FY2018.

Acuite believes that the financial risk profile of the group will continue to remain healthy over the medium term on account of its healthy scale of operations, and no major debt funded capex plans in near term.

- **Efficient working capital management**

The group has efficient working capital cycle marked by Gross Current Assets (GCA) of 39 days in FY2019 as against 41 days in FY2018. The group maintains inventory of around 20 days on an average and extends clean credit of around 15 days to its customers resulting in efficient working capital cycle in spite of dealing with seasonal products. The inventory and debtor levels stood at 9 days and 19 days in FY2019 as against 18 days and 14 days in FY2018, respectively. The group has adequate liquidity as witnessed by low dependence on working capital facilities. The working capital limit remains utilised at ~55 percent during the last twelve months ending on January 2020.

Acuite believes that the operations of MSG are likely to remain efficient over the medium term as the liquidity is supported by group's high cash accruals, low term debt repayments and low capital expenditure plans.

Weaknesses

- **Susceptibility to fluctuations in raw material price**

Operations are exposed to inherent risks associated with the agriculture-based commodity business, such as availability of raw materials, fluctuations in prices, and changes in government regulations. The group is engaged in the extracting and refining of edible oil. The prices of crude edible oil are volatile in nature; hence, the profitability is highly susceptible to the ability of the company to pass on the same to its customers. The low margin nature of the industry, dependence on climatic factors for good harvest results in vulnerability of profitability in a volatile pricing scenario. Further, the demand-supply of soya bean oil and de-oiled cake (DOC) is affected by change in regulations in export and import countries.

- **Thin operating margins and net margins**

The edible oil market is characterised by thin margin due to low value additive nature and intense competition. Margins have remained thin in this line of business which is range-bound between 1.5-2.5

percent. At a consolidated level, operating margins were lower at 1.55 percent during FY2019 vis-à-vis 2.03 percent in FY2018, due to higher raw material costs. Net margins continued to remain less than 1 percent at a consolidated level. The Indian edible oil industry is highly fragmented with a large number of companies in the organised and unorganised sector due to low entry barriers (low capital and technical requirements of business and liberal policy regime). This has resulted in severe competition and inherently thin profitability margins.

Rating Sensitivity

- Sustenance of revenue growth with improvement of operating and PAT margins.
- Maintaining healthy financial risk profile

Material Covenants

None

Liquidity Position

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.8.00-14.00 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.36-1.71 crore over the same period. The cash accruals of the group are estimated to remain around Rs.14.50-20 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.07 crore. The group has efficient working cycle operations as marked by Gross Current Assets (GCA) of 39 days in FY 2019. This has led to lower reliance on working capital borrowings, the cash credit limit in the group remains utilised at around 55 percent during the last 12-month period ended January 2020. The group maintains unencumbered cash and bank balances of Rs.1.65 crore as on March 31, 2019. The current ratio of the group stood healthy at 1.30 times as on March 31, 2019. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and low repayments over the medium term.

Outlook: Stable

Acuite believes that the outlook on MSG will remain 'Stable' over the medium term on account of its promoter's extensive experience, healthy financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1,715.75	1,124.89
PAT	Rs. Cr.	8.35	6.50
PAT Margin	(%)	0.49	0.58
Total Debt/Tangible Net Worth	Times	1.62	1.44
PBDIT/Interest	Times	3.10	2.84

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
22-Jan-2019	Cash Credit	Long Term	20.00	ACUITE BBB+/Stable (Upgraded)
	Bank Guarantee	Short Term	0.10	ACUITE A2 (Upgraded)
	Proposed Bank Facility	Long Term	3.04	ACUITE BBB+/Stable (Upgraded)
19-Mar-2018	Cash Credit	Long Term	20.00	ACUITE BBB / Stable (Assigned)
	Bank Guarantee	Short Term	0.10	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	3.04	ACUITE BBB / Stable (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	25.00 (revised from 20.00)	ACUITE BBB+/Stable (Reaffirmed)
Standby line of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB+/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A2 (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE BBB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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