Press Release

Maharashtra Solvent Extraction Private Limited

January 22, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 69.85 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB+**' **(read as ACUITE triple B plus)** from **'ACUITE BBB' (read as ACUITE triple B)** and short term rating to **'ACUITE A2' (read as ACUITE A two)** from **ACUITE A3+ (read as ACUITE A three plus)** to the Rs. 69.85 crore bank facilities of MAHARASHTRA SOLVENT EXTRACTION PRIVATE LIMITED (MSPL). The outlook is **'Stable'**.

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 the local players in Maharashtra and Madhya Pradesh. The installed capacity is around 1000 MT per day utilised to the tune of around 88 percent, i.e., 880 MT per day. The crude soya bean oil, around 23 percent of its revenue is entirely sold to its group company Sanjay Soya Private Limited (SSPL). MSEPL exports deoiled cakes to various countries such as Indonesia, Kuwait, and Thailand to name a few. MSPL faces cyclicality and volatility in raw material supply since Soya bean is a one-time crop produced during October to January.

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 utilised to the tune of 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.

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. Extent of Consolidation: Full.

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 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 3 years through 2017-18. The group's revenue grew at a CAGR of ~9 percent to Rs.1124.89 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 (HFIL), Marico Limited (ML), Pravin Masalewale (PM) and Chordia Food Products Limited (CFPL). Acuité believes that the company will continue to benefit through the promoters' 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.54.28 crore as on 31 March, 2018 as against Rs.48.56 crore as on 31 March, 2017 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 FY2017-18. The gearing of the group has further improved to around 1.44 times as on March 31, 2018 as against 2.46 times as on March 31, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.98 times as on 31 March, 2018 as against 3.04 times as on 31 March, 2017.

The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. The profitability margins of the group have remained fairly stable over the past three years with the operating margin ranging between 1.80 to 2.10 percent through FY2018. Interest Coverage Ratio (ICR) remained moderate at 2.84 times in FY2018 and 2.07 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.16 times as on 31 March, 2018 as against 0.07 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.65 times in FY2018 as against 1.64 times in FY2017. Acuité 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 working capital management is marked by Gross Current Assets (GCA) of 41 days in FY2018 as against 54 days in FY2017. The company 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 18 days and 14 days in FY2018 as against 23 days and 21 days in FY2017, respectively. Acuité 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 moderate 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. The susceptibility can be observed in the fluctuating operating revenue. The group registered operating revenue of Rs.1124.89 crore in FY18 and Rs.1074.23 crore in FY17 as against Rs. 871.27 crore and Rs. 975.04 crore in FY16 and FY15, respectively. 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 2.03 percent during FY2018 vis-a-vis 1.58 percent in FY2017, due to higher raw material costs. Net margins continued to remain less than 1 percent at a consolidated level.

- **Highly fragmented oil industry**
  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.

Outlook: Stable

Acuité 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1,124.89	1,074.23	871.27
EBITDA	Rs. Cr.	22.82	17.01	15.63
PAT	Rs. Cr.	6.50	2.53	2.66
EBITDA Margin	(%)	2.03	1.58	1.79
PAT Margin	(%)	0.58	0.24	0.30
ROCE	(%)	11.73	8.95	15.11
Total Debt/Tangible Net Worth	Times	1.44	2.46	1.36
PBDIT/Interest	Times	2.84	2.07	2.36
Total Debt/PBDIT	Times	3.36	6.61	3.79
Gross Current Assets (Days)	Days	41	54	34

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.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
20-Mar-2018	Cash Credit	Long Term	64.70	ACUITE BBB / Stable (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	4.90	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	64.70	ACUITE BBB+ / Stable (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A2 (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE BBB+ / Stable (Upgraded)

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About Acuité Ratings & Research:
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