

Press Release

Maharashtra Solvent Extraction Private Limited

December 20, 2021



Rating Assigned and Upgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings	0.25		ACUITE A2+ Upgraded
Bank Ratings	3.75	ACUITE A- Stable Assigned	
Bank Ratings	78.25	ACUITE A- Stable Upgraded	
Bank Ratings	3.75	ACUITE A- Upgraded & Withdrawn	
Total	82.25	-	-

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) to the Rs. 78.50 crore bank facilities of Maharashtra Solvent Extraction Private Limited (MSEPL). Acuité has also assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 3.75 crore bank facilities of MSEPL. The outlook is '**Stable**'.

Acuité has upgraded and withdrawn the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 3.75 crore bank facilities of MSEPL.

Rationale for the rating upgrade

The rating upgrade is primarily on account of the significant improvement in scale of operations with revenue growth of ~71 percent in FY2021. The rating also draws comfort from management's extensive experience, Group's established track record of operations and healthy financials risk profile. The rating is restrained on account of thin operating and net profitability along with susceptibility of the Group to any volatility in pricing, supply or demand of agro based raw material. Sustenance of scale of operations and any deterioration in the financial risk profile will continue to remain key monitorables.

About the Company

MSEPL was incorporated in 2004 at Mumbai. Its current Directors are Mr. Anil Dwarkadas Agrawal, Mr. Rajwardhan Raghujirao Kadambande, Mr. Sanjay Kashinath Agrawal and Mr. Kamlesh Prasad Sinha. The company is primarily engaged in soya bean crushing, extraction of crude soya bean oil and soya bean de oiled cake. It is also engaged in trading of soya bean de oiled cake and yellow corn which is used as feed for poultry. MSEPL procures its raw materials from local farmers in Maharashtra and Madhya Pradesh. The installed capacity is around 700 MT per day and is utilized to the tune of around 85 percent in FY2021. MSEPL caters primarily to the domestic market and is also engaged in the export of de-oiled cake.

About the Group Company

Sanjay Soya Private Limited (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, cotton seed oil and sunflower oil. During FY18, the company started with refining of sunflower oil along with refining of soya bean and cotton seed oil. It procures its raw materials from various local players and also from its group company MSEPL. 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 and Marico Limited. .

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Maharashtra Solvent Extraction Private Limited (MSEPL) and Sanjay Soya Private Limited (SSPL) together referred to as the 'Sanjay Soya Group' (SSG). 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

SSG was established by common promoters in 2004. Its day to day operations are managed by Mr. Sanjay Agrawal and Mr. Anil Agrawal. The promoters have extensive experience of around four decades in the same line of business. MSEPL is engaged in the business of soya bean crushing, extraction of crude soya bean oil and soya bean de-oiled cake. It is also engaged in the trading of soya de-oiled cake and yellow corn while SSPL is engaged in refining of soya bean oil, sunflower oil and cotton seed oil. The Group has been in operations for over a decade and has an established operational track record. This along with the promoters' extensive experience has helped the Group establish stable relationships with suppliers as well as clients and maintain its scale of operations. Some of the Group's major customers include Haldiram Foods International Limited, Marico Limited, and Chordia Food Products Limited. The group's revenue stood at Rs. 2059 Cr. in FY2021, Rs. 1203.41 Cr. in FY2020 and Rs. 1715 Cr. in FY2019.

Acuité believes that the Group will continue to benefit through the promoters' extensive industry experience over the medium term and established track record of operations.

Improvement in scale of operations

The Group is primarily engaged in the soya bean crushing, extracting and oil refining along with refining other edible oils on a smaller scale like cotton seed oil and sunflower oil. The crushing and extraction operations are undertaken under MSEPL and refining under SSPL. MSEPL also sells soya de-oiled cakes (DOC) in local as well as export markets. It also trades in soya DOC and yellow corn utilizing the established relations with clients to market soya DOC bought from other players. In FY2021 the Group has generated revenue of Rs. 2059 Cr. in FY2021 growing by 71 percent against Rs. 1203 Cr. in FY2020 and Rs. 1715 Cr in FY2019. The decline in FY2020 was on account of lower export of Soya DOC (in MSEPL) which stood Rs. 486 Cr. in FY2021 against Rs. 95 Cr. in FY2020. The higher contribution of exports on back of higher demand is one of the factors that led to growth in revenues and the other factor is the increase of trading in MSEPL's revenues. It stood at Rs. 379 Cr. in FY2021 accounting for 23 percent of the total revenue against Rs. 58 Cr. in FY2020 accounting for just 8 percent of the total sales. MSEPL's revenues stood at Rs. 1615 Cr. in FY2021, Rs. 783.87 Cr. in FY2020 and Rs. 1082.65 Cr. in FY2019 on a standalone basis. SSPL's standalone revenue on the other hand has

shown stable growth. It stood at Rs. 816 Cr. in FY2021, Rs. 669 Cr. in FY2020 and Rs. 633 Cr. in FY2019 SSPL's primary product is edible oil which has seen stable domestic demand. Further, till H1 FY2022 (Provisional) the Group has recorded revenue of Rs. 1546 Cr.

Acuité expects SSG's scale of operations to improve on the back of expected improvement in export sales and trading over the medium term. However given the commodity based nature of product SSG remains susceptible to volatility in pricing affecting overall revenues.

Healthy financial risk profile

The group has healthy financial risk profile marked by its healthy net worth, gearing and debt protection measures. SSG has a healthy net worth base of Rs. Rs.93.97 crore as on 31 March, 2021 as against Rs. 68.75 crore as on 31 March, 2020. The increase in net worth is on account of increasing revenue and profitability, leading to higher accretion to reserves. The group has followed moderately aggressive financial policy as reflected by peak gearing of 1.71 times over the last three years through FY2019- 21. Although the group's gearing improved to around 1.32 times as on March 31, 2021 as against 1.71 times as on March 31, 2020. Consequently, Total outside Liabilities/Tangible Net Worth (TOL/TNW) also improved to 1.87 times as on 31 March, 2021 as against 2.15 times as on 31 March, 2020. 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 FY2021. Interest Coverage Ratio (ICR) remained healthy at 4.57 times in FY2021 and 2.57 times in FY2020. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.24 times as on 31 March, 2021 as against 0.10 times as on 31 March, 2020. Debt Service Coverage Ratio (DSCR) stood at 3.91 times in FY2021 as against 2.33 times in FY2020.

With no major debt funded capex plans in near term Acuité expects the Group's financial risk profile to remain stable over the medium term on the back of stable operating performance.

Weaknesses

Susceptibility to fluctuations in agro-based raw material price fluctuations in raw material price

SSG's operations are exposed to the 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. Further, the demand-supply of soya bean oil and de-oiled cake (DOC) is affected by change in regulations in exporting and importing countries.

Thin operating margins and net margins

The edible oil market is characterized by thin margin due to low value additive nature and intense competition. At a consolidated level, operating margins were improved to at 2.35 percent during FY2021 vis-à-vis 1.78 percent in FY2020, due to lower raw material costs. Margins have remained thin in this line of business which is range-bound between 1.5-2.5 percent. Net margins remained ~1 percent at a consolidated level. The Indian edible oil industry is highly fragmented with a large number of companies in the organized and unorganized 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 Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

SSG's net cash accruals remained in the range of Rs. 11 Cr. to 30 Cr. for FY2019-21 against repayment obligations of around Rs. 3.5 Cr. for the same period. Going forward the net cash accruals are expected to be in the range of Rs. 30 – 55 Cr against repayment obligations of ~ Rs. 3.50 Cr. for the same period. The Group's working capital cycle is efficiently managed reflected in the Gross Current Asset (GCA) Days of 41 days in FY2021. This has led to lower reliance of bank borrowing for working capital. The bank limit remained utilized at ~50 percent during the last 6 months ending on October 2021. Acuite believes SSG will maintain an adequate liquidity profile on account of adequate unutilized bank limits and cushion between repayment obligations and net cash accruals.

Outlook: Stable

Acuité believes that the outlook on SSG 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	2059.36	1203.41
PAT	Rs. Cr.	25.21	6.10
PAT Margin	(%)	1.22	0.51
Total Debt/Tangible Net Worth	Times	1.32	1.71
PBDIT/Interest	Times	4.75	2.57

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Apr 2020	Proposed Bank Facility	Long Term	4.90	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	64.70	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
	Standby Line of Credit	Long Term	12.40	ACUITE BBB+ Stable (Assigned)

22 Jan 2019	Cash Credit	Long Term	64.70	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Long Term	4.90	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A2+ Upgraded (from ACUITE A2)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	64.70	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.15	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A- Upgraded & Withdrawn (from ACUITE BBB+)
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	12.40	ACUITE A- Stable Upgraded (from ACUITE BBB+)
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.75	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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