

Press Release
Pitambar Solvex Private Limited (PSPL)

July 05, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 37.00 Cr.
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has Reaffirmed the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 37.00 crore bank facilities of Pitambar Solvex Private Limited. The outlook is 'Stable'.

Pitambar Solvex Private Limited (PSPL), incorporated in 2012 commenced its operations in FY2015. PSPL is engaged in the manufacturing of de-oiled cakes and refining of edible crude oil using oil cakes and unprocessed edible crude oil as its raw material. It has an installed capacity of 500 MT/day for solvent extraction (crushing unit to convert oil cake into de-oiled cakes (output-460 MT/day) and impure refined oil (output-40 MT/day)) and 250 MT/day for the refinery unit (processing of impure refined oil). The capacity utilization as on 31st March, 2019 stood at ~65-70 per cent.

Analytical Approach

ACUITE has considered the standalone business and financial risk profiles of PSPL to arrive at the rating.

Key Rating Drivers

Strengths

• **Experienced management**

PSPL is promoted by Mr. Rajesh Sharma, Mr. Satyendra Pal Tiwari and Mr. Ashok Kumar Malhotra. Mr. Rajesh Sharma (Chartered Accountant by profession) has been associated with the edible oil industry for more than a decade by way of providing consultancy services in the past. During his tenure he catered to companies like Adani, Bhaskar Group, khandelwal edible oils limited, to name a few. Further, Mr. Tiwari, a techno credit, with a B.E. degree has extensive experience in designing, engineering, and providing turnkey execution of plants in the oil sector. His knowledge of the industrial plants and processes has helped PSPL in efficient utilization of its machinery. Mr. Ashok Kumar Malhotra was previously engaged in the trading of oil cakes.

Acuité believes promoter's extensive experience in the edible oil industry will help the company maintain good relations with its customers and suppliers.

• **Moderate financial risk profile**

The financial risk profile of the company has been moderate marked by net worth of Rs.19.15 crore as on 31 March, 2019 (Provisional) as against Rs.18.67 crore as on 31 March, 2018. The gearing stood at 1.05 times as on 31 March, 2019 (Provisional) as against 1.77 times as on 31 March, 2018. The total debt of Rs. 20.42 crore outstanding as on 31 March, 2019 (Provisional) comprises long term loans of Rs.4.91 crore, working capital facility of Rs. 14.97 crore from the bank and current portion of long term debt of Rs.0.53 crore. The ICR improved to 2.45 times in FY2019 (Provisional) against 1.87 times in FY2018. The net cash accruals stood comfortable at Rs.3.12 crore in FY2019 (Provisional) against a debt obligation of Rs.0.53 crore. The NCA/TD ratio stood at 0.15 times in FY2019 (Provisional) as against 0.08 times in FY2018.

- **Healthy Working Capital Cycle**

PSPL's working capital cycle is healthy marked by a GCA of 16 days for FY2019 (Provisional) against 26 days in FY2018. This is on account of low debtor collection period and inventory cycle of 6 and 8 days in FY2019 (Provisional) against 7 and 16 days in FY2018. Going ahead, Acuité believes the company will be able to sustain the healthy working capital cycle.

Weaknesses

- **Susceptibility of margins to fluctuations in raw material prices on account of agro climatic risk**

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 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 company registered operating revenue of Rs.593.18 crore in FY19 (Provisional) as against Rs.627.85 crore in FY18 and Rs. 368.14 crore in FY17. Hence, Acuité believes the PSPL's margins are susceptible to fluctuations in raw material prices.

- **Thin operating margins and net margins**

The edible oil market is characterized 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 1.50-2.50 percent. The operating margins is low at 0.94 percent during FY2019 (Provisional) vis-à-vis 0.93 percent in FY2018, due to higher raw material costs. Net margins continued to remain less than 0.30 percent in FY2019 (Provisional) as well as in FY2018.

- **Highly competitive and fragmented edible oil industry**

Edible oil extraction and refinery companies in India are dependent on imports for crude edible oil. Further, due to low capital intensive nature of business, the entry barriers are low resulting in intense market competition and thin profitability.

Liquidity position

The firm has moderate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.3.12 crore during FY2019 (provisional), while the debt maturity obligation for the same period is Rs.0.53 crore. The cash accruals of the firm are estimated to increase from Rs. 3.72 crore in FY2020 to Rs5.34 crore in FY2022 while the debt maturity obligation for the period (FY 2020-2022) will be estimated to be Rs.0.50 crore each year. The firm maintains cash and bank balances of Rs.0.10 crore as on March 31, 2019 (Provisional). The current ratio of the firm stands healthy at 1.25 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of comfortable cash accrual to its maturing debt obligation.

Outlook: Stable

Acuité believes that PSPL will maintain a Stable outlook owing to the extensive experience of its promoters in the industry and a healthy working capital cycle. The outlook may be revised to 'Positive' if the scale of operations increases substantially while improving profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or deterioration in the financial risk profile owing to higher-than-expected debt-funded capex or working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18	FY17
Operating Income	Rs. Cr.	593.18	627.85	368.14
EBITDA	Rs. Cr.	5.55	5.86	5.30
PAT	Rs. Cr.	1.62	1.67	1.26
EBITDA Margin (%)	(%)	0.94	0.93	1.44
PAT Margin (%)	(%)	0.27	0.27	0.34
ROCE (%)	(%)	8.92	10.84	10.43
Total Debt/Tangible Net Worth	Times	1.05	1.77	1.28
PBDIT/Interest	Times	2.45	1.87	1.70
Total Debt/PBDIT	Times	3.61	5.59	4.08
Gross Current Assets (Days)	Days	16	26	22

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing entities - <https://www.acuite.in/view-rating-criteria-4.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
06-July-2018	Cash credit	Long term	30.00	ACUITE BB+/Stable (Assigned)
	Term loan	Long term	4.02	ACUITE BB+/Stable (Assigned)
	Term loan	Long term	2.38	ACUITE BB+/Stable (Assigned)
	Proposed bank facility	Long term	0.60	ACUITE BB+/Stable (Assigned)

*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	30.00	ACUITE BB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.01	ACUITE BB+/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	1.71	ACUITE BB+/Stable (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	3.28	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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