

Press Release

Kutch Oil and Soap Industry

September 30, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs.13.15 Cr.
Long Term Rating	ACUITE D (Downgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE D**' (read as **ACUITE D**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 13.15 crore bank facilities of Kutch Oil and Soap Industry (KOSI).

The downgrade in the rating reflects persistent delays in servicing of debt obligation.

Kutch Oil and Soap Industry (KOSI) based at Kutch (Gujarat) was established in 2015. The firm is engaged in manufacturing and supply of spent oil produced from spent earth. The firm is promoted by Bhimani Group of companies, which has presence of more than a decade in the oil and soap industry. The manufacturing facility is located at Kutch with installed capacity of 7500 MTPA with ~60 per cent utilization. The finished product (spent oil) is used in animal feed and soap manufacturing. The commercial operations started in April 2017.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KOSI to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management**

The partners of the firm are Mr. Mahamadali Khoja and Mr. Jakhu Virda. The partners have more than a decade experience through their association with other firms and the company in oil and soap manufacturing industry. Acuite believes that KOSI will sustain its existing business profile on the back of its experienced management.

- Proximity to raw materials and location advantage**

The factory is located near Mundra Port & Kandla Port and well connected with the National Highway. This has helped the firm in easy transportation of their products to major cities and timely procurement and availability of raw material i.e. spent earth (Soil).

Weaknesses

- Delays in debt servicing**

The rating reflects delays in servicing of debt obligations. There have been instances of delay in servicing of principal and interest payments of term loans during the last three months.

- Weak financial risk profile**

The financial risk profile of the firm stood weak marked by high gearing (debt-equity) of 7.62 times as on 31 March, 2019 (Provisional) as compared to 3.94 times in the previous year. Further, the coverage indicators stood below average marked by low Interest Coverage Ratio (ICR) of 2.48 times in FY2019 (Provisional). DSCR stood low at 0.93 times in FY2019 (Provisional).

- Regulatory risk**

The production of edible oil may produce harmful effluents, which may impact the environment. This industry is highly regulated by government and any adverse change will impact the operations to a certain extent. However, the firm has received necessary approvals from Gujarat Pollution Control Board (GPCB).

Liquidity Position: Stretched

The firm has stretched liquidity position on account of low NCA (Net Cash Accruals) of Rs. 1.85 crore for FY2019 (Provisional) to its maturing debt obligation of Rs. 2.09 crore for the same period. The firm has working capital intensive operations marked by high Gross Current Asset (GCA) days of 165 days for FY2019 (Provisional). The current ratio stood at 1.14 times as on 31 March, 2019 (Provisional).

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)
Operating Income	Rs. Cr.	17.98	10.41
EBITDA	Rs. Cr.	3.10	3.16
PAT	Rs. Cr.	0.48	(1.64)
EBITDA Margin	(%)	17.26	30.41
PAT Margin	(%)	2.68	(15.78)
ROCE	(%)	10.46	(7.16)
Total Debt/Tangible Net Worth	Times	7.62	3.94
PBDIT/Interest	Times	2.48	2.94
Total Debt/PBDIT	Times	4.94	3.98
Gross Current Assets (Days)	Days	165	236

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-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
25-July-2018	Cash Credit	Long Term	2.65	ACUITE B+/ Stable (Assigned)
	Term loan	Long Term	10.50	ACUITE B+/ 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	2.65	ACUITE D (Downgraded from ACUITE B+/ Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE D (Downgraded from ACUITE B+/ Stable)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Priyal Jain Analyst - Rating Operations Tel: 022-49294043 priyal.jain@acuите.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

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