

Press Release

Kaluram Food Products Private Limited

December 30, 2019

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.25.80 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Revised from ACUITE BBB- /Stable)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.25.80 crore of Kaluram Food Products Private Limited (KFPPL). The outlook is '**Negative**'.

The revision in the outlook is mainly due to significant moderation in the profitability margins.

Kaluram Food Products Private Limited (KFPPL) was incorporated in 2014 by Mr. Shivprakash Ruhatiya, Mr. Ajayprakash Ruhatiya and Mr. Shriprakash K. Agrawal. The company is a part of Ruhatiya Group. KFPPL is engaged in manufacturing of refined Soyabean oil, Lecithin, Fatty acid, Acid oil and other soya products. The company sells its products under its brand 'VITTHAL'.

Ruhatiya Group was founded in 1995 by Mr. Shivprakash Ruhatiya, Mr. Ajayprakash Ruhatiya and Mr. Shriprakash K Agarwal. There are 8 entities in the group named, Narmada Solvex Private Limited, Kaluram Food Products Private Limited, Ruhatiya Cotton & Metal Private Limited, Ruhatiya Spinners Private Limited, Ruhatiya Hospitals Private Limited, Kaluram Laminates Private Limited, Vidarbha Textile Mill Owners Association and Ruhatiya Agro Private Limited. The group is engaged in agro based industries such as oil industry, textile industry, among others.

Analytical Approach

Acuite has considered consolidated business and financial risk profiles of Narmada Solvex Private Limited (NSPL) and Kaluram Food Products Private Limited (KFPPL), hereinafter referred as Ruhatiya Group (RG). The consolidation is mainly on account of similarity in the line of business, strong operational synergies and common management. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management

The group is promoted by Mr. Shivprakash Ruhatiya, Mr. Ajayprakash Ruhatiya and Mr. Shriprakash K Agarwal. The promoters have experience of more than two decades in the agro based industries. NSPL is engaged in the business of extraction of crude soya bean oil and soya bean de oiled cake and KFPPL is engaged in refining of soya bean oil, sunflower oil and groundnut oil. Further, the management of the group, over the years, has built a healthy relationship with major customers such as Adani Wilmar Limited, Godrej Agrovet Limited and Krishi Nutrition Company Private Limited among others.

Acuite believes that the group will continue to benefit through the promoters' extensive industry experience over the medium term.

• Moderate financial risk profile

The financial risk profile is marked by moderate net worth, moderate gearing and debt protection measures. The net worth of the group is stood at around Rs.46.25 crore as on 31 March 2019 as against Rs.43.91 crore as on 31 March 2018. The increase in the net worth is on account of equity infusion of Rs.0.80 crore and moderate increase in revenues. Net worth also includes quasi equity of Rs.26.00 crore as on 31 March 2019.

The group has followed a moderately aggressive financial policy as reflected by peak gearing of 1.86 times over the last three years through FY2017-19. The gearing of the group has further improved to around 1.78 times as on March 31, 2019 as against 1.83 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.36 times as on 31 March, 2019 as against 2.77 times as

on 31 March, 2018.

The increase in revenue levels albeit decline in operating margins have resulted in moderate debt protection matrices. Interest Coverage Ratio (ICR) remained moderate at 1.52 times in FY2019 and 1.81 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.04 times for FY2019 as against 0.07 times for FY2018. Debt Service Coverage Ratio (DSCR) stood at 1.42 times in FY2019.

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

Weaknesses

- **Thin profitability margins along with fragmented oil industry**

The edible oil market is characterised by thin margin due to low value additive nature and intense competition. Operating margins have remained thin and declined to 2.01 percent in FY2019 from 2.98 percent in FY2018, due to higher raw material costs. Further, net margins continued to remain less than 1 percent marked by 0.27 percent in FY2019 against 0.68 percent in FY2018.

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.

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

RG's 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 group 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.

Liquidity position: Adequate

The group has adequate liquidity marked by modest net cash accruals of Rs.3.59 crore as against Rs.1.01 crore of yearly debt obligation. The cash accruals of the group are estimated to remain in the range of Rs.4-7.00 crore during 2020-22 against debt obligations of Rs.1.01 crore over the same period. The working capital operations of the group is moderate marked by gross current asset days of 85 in FY2019. RG's bank limit is 70 per cent utilized for the past six months ended in November, 2019. The group maintains unencumbered cash and bank balances of Rs. 3.21 crore as on March 31, 2019. The current ratio of the group stood at 1.31 times as on March 31, 2019. Acuite believes that the liquidity of the group is likely to remain healthy over the medium term on account of adequate cash accruals against debt repayments over the medium term.

Rating Sensitivity

- Substantial improvement in scale of operation while improvement in profitability margins over the medium term.
- Deterioration in financial risk profile.

Material covenants

None

Outlook: Stable

Acuite believes that the RG's credit profile will be under pressure on account of significant moderation in its key operating parameters over the near to medium term. The rating may be downgraded in case of continued moderation in its profitability margins impairing its liquidity and debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the group is able to demonstrate significant and sustainable improvement in its revenues and profitability margins while managing its working capital cycle effectively.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	590.07	522.70
PAT	Rs. Cr.	1.60	3.55
PAT Margin	(%)	0.27	0.68
Total Debt/Tangible Net Worth	Times	1.78	1.83
PBDIT/Interest	Times	1.52	1.81

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>
- 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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Oct-2018	Cash Credit	Long Term	21.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	4.80	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB-/ Negative (Revised from ACUITE BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE BBB-/ Negative (Revised from ACUITE BBB-/Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Simranjeet Kaur Rating Analyst Tel: 022-49294052 simranjeet.kaur@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (erstwhile SMERA Ratings 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 6,000 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 Mumbai.

Disclaimer: *An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.*