

Press Release

Keshav Industries Private Limited

May 05, 2020



Rating Reaffirmed

Total Bank Facilities Rated	Rs. 15.00 crore
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and **short term rating of 'ACUITE A4+'** (**read as ACUITE A four plus**) to the Rs.15.00 crore bank facilities of Keshav Industries Private Limited(KIPL). The outlook is '**Stable**'.

Keshav Industries Private Limited was incorporated in 2009, promoted by Mr. Navneet Garg and his wife Mrs. Shikha Garg. The company is engaged in manufacturing of soya refined oil and sells by-products like Lecithin and fatty acid manufactured during the process. The refinery is located in Dewas, Madhya Pradesh which has a capacity of 30000 MT annually. The company's products are sold under the brand names such as 'Kash', 'Delight' and 'Pride' and even exported to countries such as Ukraine, Peru, Italy and United States of America(USA).

Analytical Approach

Acuité has considered the standalone business and risk profile of KIPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management**

The company is managed and operated by Mr. Navneet Garg and his family who have been associated with the edible oil industry for more than a decade. Acuité believes that the extensive experience of the management has enabled the group to maintain healthy relationships with their key customers and suppliers which will help in efficient management of this entity.

- Prudent working capital operations**

KIPL'S operations are efficiently managed with gross current asset (GCA) of about 27 days in FY2019 as compared to 72 days in FY2018 as there has been improvement in debtor days from 37 days in FY2018 to 2 days in FY2019 due to better realization from their clients including the Star Agri Group and even the inventory days decreased to 21 days in FY2019 from 28 days in FY2018. The company's refinery is situated at Dewas which has advantage of being proximately located to suppliers situated in Pithampur and Indore resulting in timely availability of the raw materials. However, the bank limits of the company are almost fully utilized for the 12 months ended February 2020. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company and limited credit period extended to its customers.

Weaknesses

- Competitive and fragmented industry**

With the presence of a large number of established as well as unorganised players, the company faces stiff competition from various varieties of imported edible oils, given the high level of substitution, which has an impact on the bargaining powers with the customers and the profitability margins. Operating profitability stood low at 1.05 per cent in FY2019 and 1.22 per cent in the previous year on account of low value additive nature of operations. Similarly Profit after tax(PAT) stood at 0.28 per cent in FY2019 as

against 0.18 percent FY2018. Acuité believes improvement in profitability margins would be a key rating sensitivity factor.

• Susceptibility of profitability to volatility in raw material prices

Oilseed production in India is insufficient to meet rising demand in India, thus the gap between demand and supply is generally met through imports. Thus, prices are determined by global forces of demand and supply which results in volatility in prices both at input level as well as at end product level. Moreover, government intervenes at regular intervals in the form of changes in duty structure to protect the interest of refiners and to narrow the gap between duties on crude oil and refined oil. Also, oilseed production is exposed to vagaries of nature.

Rating Sensitivity

- Substantial improvement in profitability margins
- Sustenance of working capital operations

Material Covenants

None

Liquidity Profile

The company's liquidity is adequate marked by net cash accruals of Rs.1.37 crore in FY2019 as against maturing obligation of Rs.0.17 crore over the same period. The current ratio stood at 1.25 times as on March 31, 2019. The cash and bank balances of the company stood at Rs.0.24 crore as on 31st March 2019. The company's working capital efficient operations are reflected by Gross Current Assets (GCA) of 27 days in FY2019 as against 72 days in FY2018. However the bank limits are almost fully utilized for the 12 months ended February 2020. Acuité believes that the liquidity of the company continues to remain adequate supported by moderate accruals and efficient working capital operations.

Outlook: Stable

Acuité believes that KIPL will maintain a 'Stable' business risk profile over the medium term benefitting from its experienced management and efficient working capital operations. The outlook may be revised to 'Positive' in case the company registers improvement in the profitability metrics. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than expected debt-funded capital expenditure leading to deterioration in their capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	250.03	184.31
PAT	Rs. Cr.	0.69	0.32
PAT Margin	(%)	0.28	0.18
Total Debt/Tangible Net Worth	Times	1.01	1.13
PBDIT/Interest	Times	2.59	2.65

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Mar-2019	Cash Credit	Long Term	8.10	ACUITE BB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	3.90	ACUITE BB+/Stable (Assigned)
	Bill Discounting	Short Term	3.00	ACUITE A4+ (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	27/02/2020	Not Applicable	Not Applicable	8.10	ACUITE BB+/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.90	ACUITE BB+/Stable (Reaffirmed)
Bill Discounting	27/02/2020	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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