

Press Release

Kisan Oleochem And Derivatives Ltd

November 13, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.35.00 crore bank facilities of KISAN OLEOCHEM AND DERIVATIVES PRIVATE LIMITED. The outlook is '**Stable**'.

Gujarat based Kisan Oleochem and Derivatives Private Limited (KOPL) was incorporated in 2009 by Mr. Manu bhai Patel and is engaged in manufacturing, processing and trading of various grades of Castor Oil and Castor seed Extraction. The castor oil is exported mainly to China, Iran, Iraq, Japan and Malaysia. The castor oil is used in various industries to manufacture cosmetic products, paints, Plastic products. KODPL has total manufacturing capacity of 350 metrics tons per day and utilization is 250 metrics tons per day.

About the Group

Kisan Agro group (KAG), based out of Gujarat, is engaged in extraction, refining and exporting of castor oil. Also, it is engaged in extracting solvent extraction from rapeseed. The castor oil is exported to foreign countries including china, Iran, Iraq, Japan and many more. It is used in various industries to manufacture cosmetic products, paints, plastic products. The rapeseed de-oiled cakes are majorly used as feed in poultry. The raw material such as castor seeds and rapeseed cake are procured from APMC of Gujarat and local suppliers in Rajasthan, Madhya Pradesh and Haryana. The installed capacity for castor oil is around 350 MT per day utilized to the tune of around 250 MT per day. For rapeseed cake, the installed capacity is 250 MT per day and utilization is around 150 MT per day.

Analytical Approach

For arriving at its rating, Acuite has consolidated the business and financial risk profiles of Kisan Agro Products Industries (KAPI), Kisan Proteins Private Limited (KPPL) and Kisan Oleochem & Derivatives Private Limited (KOPL) together referred to as the 'Kisan Agro Group' (KAG). The consolidation is in view of the common management, strong operational and financial linkages between the entities and management stated posture of extension of support within the group companies. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established track record of Operations and experienced management

The promoters of KAG have been in the processing and trading of oil business from 1989 which gives them extensive experience in the said industry. Further having around three decades of operational track record has helped the group to maintain strong relations with its customers as well as with its suppliers. The extensive experience of the promoters is also reflected through group's stable revenue growth rate on year-on-year basis. Operating income stood at Rs.462.55 crore in FY2019, Rs.457.65 crore in FY2018 and Rs.310.89 crore in FY2017.

Acuite believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit group over the medium term.

• Efficient working capital management

Operations of KAG are working capital efficient marked by Gross Current Asset (GCA) of 97 days in FY2019 as compared to 70 days in FY2018. This is on account of debtors' collection period of 28 days in FY2019 as against 14 days in FY2018 and inventory holding period of 56 days in FY2019 as against 39 days in FY2018. Further, current ratio of the company stood moderate at 1.20 times as on 31 March, 2019 as against 1.33 as on 31 March, 2018. Acuite believes that the working capital operations of KAG will continue to remain efficient on account of low level of debtor's collection period

Weaknesses

• Average financial risk profile

KAG's financial risk profile remained average marked by average net worth, average debt protection metrics and high gearing. The net worth of group stood at Rs.21.21 crore as on 31 March 2019 as against Rs.19.46 crore as on 31 March 2018. The gearing level (debt-equity) stood at 3.50 times as on 31 March 2019 as against 2.89 times as on 31 March 2018 due to increase in total debt. The total debt of Rs.74.32 crore as on 31 March 2019 consists of unsecured loans of Rs.6.98 crore and working capital borrowings of Rs.67.34 crore. Average improvement in profitability levels has resulted in average net cash accruals of Rs.2.15 crore in FY2019, and simultaneously interest obligations increased from Rs.5.70 crore in FY2018 to Rs.7.61 crore in FY2019, leading to stable debt protection measures. The interest coverage ratio (ICR) stood at 1.34 times in FY2019 as against 1.34 times in FY2018. TOL/ TNW (Total outside liabilities to total net worth) ratio stood at 5.19 times in FY2019 and 3.82 times in FY2018. Debt to EBITDA stood at 7.28 times in FY2019 as against 7.36 times in FY2018.

Acuite believes that the financial risk profile of the group is expected to remain average on account by average net cash accruals and debt funded working capital requirements.

• Susceptibility of profitability to fluctuations in raw material prices

The operating margins are susceptible to raw material price fluctuation. Further, the margins are also uneven as the group also trades in various oils and the margins are thin in trading activities. The operating margins for the group have improved to 2.15 percent in FY2019 from 1.57 percent in FY2018 and 2.15 percent in FY2017. Further, the operating margins will depend on the proportion of trading and processing activities of the group.

Liquidity Profile

Group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. It generated cash accruals of Rs.2.15 crore in FY2019 against no debt obligations for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.2.79 crore to Rs.4.36 crore during FY2020-22 against no repayment obligations for the same period. The group's working capital operations are intensive marked by gross current asset (GCA) days of 87 days in FY2019. Group maintains unencumbered cash and bank balances of Rs.0.19 crore as on 31 March 2019. The current ratio stands at 1.22 times as on 31 March 2019.

Acuite believes that the liquidity of the group is likely to remain healthy over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that KAG will maintain a 'Stable' outlook over the medium term on account of the management's experience and established relations with clientele. The outlook may be revised to 'Positive' in case of substantial and sustained increase in revenues and profitability, while maintaining its efficient working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any significant volatility in profitability or stretch in its working capital operations impacting the liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	462.55	457.65	310.89
EBITDA	Rs. Cr.	9.96	7.16	6.69
PAT	Rs. Cr.	1.42	1.09	0.86
EBITDA Margin	(%)	2.15	1.57	2.15
PAT Margin	(%)	0.31	0.24	0.28
ROCE	(%)	11.06	9.23	9.80
Total Debt/Tangible Net Worth	Times	3.50	2.89	4.06
PBDIT/Interest	Times	1.34	1.34	1.28
Total Debt/PBDIT	Times	7.28	7.36	9.08
Gross Current Assets (Days)	Days	97	70	112

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Consolidation Criteria- <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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	25.00	ACUITE BB / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BB / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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