Press Release

Lohiya Veg Oils Private Limited

March 19, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.49.00 Cr.
Long Term Rating	ACUITE BBB / Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.49.00 crore bank facilities of LOHIYA VEG OILS PRIVATE LIMITED (LVOPL). The outlook is **'Stable'**.

Lohiya Veg Oils Private Limited (LVOPL) is a Hyderabad based company incorporated in 2003 which is a part of Lohiya Group. The company is engaged in the business of processing, packaging and distribution of sunflower oil and Palm oil. The company sells sunflower oil and palm oil under the brand name 'Gold Drop'. The company's processing facility is located at Hyderabad with an installed capacity of 75000 MTPD.

About the Group

Lohiya Industries is a Hyderabad based firm and is the flagship firm of Lohiya group which was established in the year 1987. The firm was engaged in trading of castor seeds for almost two decades. Later they slowly moved to processing and trading of edible oil. The present Installed Annual Capacity of the Plant is 45,000 TPA. Lohiya Edible Oils Private Limited was incorporated in the year 2004 which is engaged into processing of edible oils. Currently the company has 2 operational unit one unit at Mankhal (Telangana) and another unit at Kakinada Port (Andhra Pradesh), with an annual capacity of 324500 TPA. Lohiya Group (LG) is promoted by Mr. Kanhailal Lohiya and family who have more than three decades of experience in the edible oil industry. The Group's flagship brand 'Gold Drop' launched in the year 1995.

Analytical Approach

Acuité has consolidated business and financial risk profile of Lohiya Veg Oils Private Limited (LVOPL), Lohiya Edible Oils Private Limited (LEOPL) and Lohiya Industries (LI) together referred as Lohiya Group (LG) to arrive at the rating. The consolidation is on account of common management, same line of business and significant operational and financial linkages. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced management and established position in Edible Oil Industry**
  Lohiya Group initially established Lohiya Industries in the year 1987 which is into trading of caster seeds. Later in 2003 Lohiya veg Oils Private Limited was incorporated and is engaged into processing, packaging and distribution of Sunflower oil and Palm oil mainly. In 2004, Lohiya Edible Oils Private Limited was incorporated and is engaged into same business. Lohiya Group (LG) is promoted by Mr. Kanhailal Lohiya and family who have more than three decades experience in the edible oil industry. The group has an established position in the edible oil industry for more than three decades. The group caters majorly to Southern India catering to various states like Andhra Pradesh, Telangana, Orissa, Karnataka, Maharashtra, and Madhya Pradesh. The established position of the brand has helped the company sell directly to large retails chains such as Reliance Fresh, D Mart, Big Bazar to name a few. Due to the group's established track record of operations and management experience, the group has booked the revenue of Rs.2043.99 crore in FY2019 as compared to Rs.1855.10 crore in FY2018 and Rs.1700.67 crore in FY2017. Further, LVOPL, LEOPL and LI have booked revenues of Rs.177.12 crore, Rs.736.32 crore and Rs.490.15 crore, respectively for the

seven months ended as on 31st October, 2019. The group is expected to continue to leverage its well established relationships with reputed clients and suppliers.

Acuité believes that LG shall continue to benefit from its long standing presence of more than three decades in the Edible Oil industry and its established brand position which is likely to result in steady stream of revenues for the company over the medium term.

- **Increase in scale of Operations albeit fluctuating profitability margins.**

The revenues of the LG grew at a CAGR of 9.65 percent for three years ending FY2019. The revenues has increased to Rs.2043.99 crore in FY2019 from Rs.1700.67 crore in FY2017. The growth in revenues is mainly attributed to increase in sales from the sunflower oil segment backed by capex and increase in reach to other states. The group generates ~65% revenues from Sunflower oil division and ~35% from Palm Oil division.

Further, operating margins of the company has remained fluctuating for the period ending FY2019. The operating margins has remain at 2.67 per cent in FY2019 as against 2.96 percent in FY2018 and 2.09 percent in FY2017. The fluctuation in EBITDA margins are due to increase in business promotion expenses incurred towards introduction of new brand called 'Sooperlife'. The PAT margin stood at 1.21 per cent in FY19, 1.60 percent in FY18 and 1.13 percent in FY17.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by moderate net worth, gearing and debt protection indicators. Gearing and TOL/TNW levels are moderate at 0.41 and 2.33 times as on 31 March, 2019 vis-à-vis 0.41 and 1.90 times as on 31 March, 2018. Net worth is moderate and increased to Rs.183.10crore as on 31 March, 2019 as against Rs.169.04 crore in the FY2018 due to accretion of profits to reserves. Of the total debt of Rs.75.69 crore as on 31 March, 2019, long term debt constitutes Rs.14.59 crore and short term debt of Rs.25.31 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 3.20 times and 0. 42 times respectively in FY2019 as against 3.92 times and 0.52 times respectively in FY2018. Interest coverage ratio has decreased due to increase in interest expense and decrease in EBITDA in absolute terms, NCA/TD deteriorated to 0.42 in FY2019 from 0.52 in FY2018 due to decrease in net cash accruals in FY2019 when compared to FY2018 due to decrease in PAT levels and total debt has also been increased on account of increase in short term debt when compared to previous year. Lohiya Group generated cash accruals of Rs.32.08 crores in FY2019 as against Rs.36.69 crore in FY2018.

The revenues of the company increased by around 9 per cent to Rs.2043.99 crore during 2018-19, while its operating margins were fluctuated in the range of 2.96-2.67 per cent. The moderate profitability levels coupled with moderate debt levels has led to healthy debt protection measures.

Acuité believes that the financial risk profile of the company is expected to be at similar levels over the medium term supported by moderate cash accruals and absence of any significant debt-funded capex plans.

- **Efficient Working capital management**

Working capital cycle of the company is efficiently managed with gross current assets at 83 days in FY2019 as against 66 days in FY2018. This is due to increase in debtor days to 34 days in FY2019 from 22 days in FY2018. LG extends credit period of around 25-30 days to its dealers and realizes payments within the same period. Inventory days are moderate and stood at 38 days in FY2019 as against 25 days in FY2018. Lohiya Group has utilized 70% of their working capital limits for the past six months ended January 2020.

Acuité believes that working capital cycle of the company is expected to improve owing to efficient inventory management and healthy receivable policy with diversified debtor network.

Weaknesses

- **Risk associated with volatility in raw material prices**
  The raw material cost is the major cost component which constitutes 89% of the total cost incurred. The group also imports crude oil from Ukraine, Malaysia and Indonesia. The total import of the group comprises of ~90 per cent of total purchases. The price movements are subject to demand and supply aspects globally. The crude oil prices are being volatile and subject to risk associated with movement in prices.

- **Highly competitive and fragmented industry**
  The group operates in a highly competitive and fragmented industry and faces tough competition from various established brands in the edible oil industry as well as several unorganized players which could have an impact on the bargaining powers with the customers and the margins in this industry is also low due to low value addition involved.

Rating Sensitivity factors:

- Significant Improvement in revenues
- Any further deterioration in working capital

Material Covenants: None

Liquidity Position: Adequate

LG has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs.25.65-32.08 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs.4.82-6.67 crore over the same period. The cash accruals are estimated to improve to Rs.38.00-53.00 crore during 2020- 22, while its repayment obligations in the range of Rs.4.9 crore to Rs.2.00 crore. This is on account of significant improvement in revenue leading to moderate profitability. The group maintains cash and bank balances of Rs.10.36 crore as on March 31, 2019. The current ratio stood moderate at 1.29 times as on March 31, 2019. However, the working capital limits of the group remains utilized at 70 percent. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that LG will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2043.99	1855.10
PAT	Rs. Cr.	24.69	29.70
PAT Margin	(%)	1.21	1.60
Total Debt/Tangible Net Worth	Times	0.41	0.41
PBDIT/Interest	Times	3.20	3.92

Status of non-cooperation with previous CRA (if 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
- Application of Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation of companies - 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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A2 (Assigned)

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About Acuité Ratings & Research:

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