

Press Release

Ramdevbaba Solvent Private Limited

March 01, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	24.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) to the Rs.24.00 Cr. bank facilities of Ramdevbaba Solvent Private Limited (RSPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into consideration the established market position of the company in the edible oil industry especially across the state of Maharashtra. The ratings also draws comfort from long and extensive experience of the promoters in the aforementioned industry and augmentation in business risk profile along with sustained growth in scale of operations over the years despite the onset of covid-19 pandemic. The rating also factors the moderate financial risk profile and adequate liquidity position of the company. However, these strengths of the company are partially offset by thin profitability margins, susceptibility to volatility in raw material prices and also presence in a highly fragmented and competitive industry.

About the Company

Incorporated in 2008, Ramdevbaba Solvent Private Limited (RSPL) is based out of Maharashtra and is currently engaged in manufacturing and refining of Rice Bran Oil and Rice Bran De-Oiled Cake with crushing capacity of 550 Tonnes per day (TPD). The company is currently has two manufacturing plants located in Maharashtra.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations with experienced management

RSPL is based out of Maharashtra and was incorporated in the year 2008 reflecting an established track record of operations for more than a decade. The company is promoted by Mr. Pashant Kisanlal Bhaiya who have been engaged in the edible oil industry for more than three decades through other entity of MKB Foods Private Limited.

The operations of the company are managed by the promoters as well as well experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters has helped the company to established long and healthy relationships with reputed customers and suppliers over the years. The key customers of the company include names such as Marico Limited, Mother Dairy Fruit and Vegetable Pvt. Ltd.

Acuité believes that the company will sustain its existing business profile over the medium term on the back of an established track record of operations with an experienced.

Augmentation in business risk profile

The revenue of the company stood at Rs.425.60 Cr. in FY21 registering a growth of ~22 percent YoY compared to revenue of Rs.349.64 Cr. in FY20 and a growth of ~75 percent YoY in FY20 as against Rs.199.62 Cr. revenue in FY19. The increase in revenue is majorly on account of healthy demand and higher realization of its products owing to price hikes in edible oils. Apart from that, the rise in FY20 was also on account of increase in production capacity by the company by establishing one more solvent plant located in Nagpur, Maharashtra in 2017 which started its commercial production from FY20.

However, despite increase in turnover, the operating profit margin have remained volatile and has declined from 4.70 percent in FY19 to 3.64 percent in FY20 and subsequently to 3.56 percent in FY21. The decline is majorly on account of increase in raw material costs. The impact of rise in input costs is somewhat mitigated by reduction in power cost owing to installation of solar power plant in both its plant. The PAT margin also declined from 1.45 percent in FY20 to 1.35 percent in FY21.

Acuité believes that the business risk profile of the company will continue to improve on account of healthy demand expected from edible oil industry over the medium term.

Moderate financial risk profile

RSPL has moderate financial risk profile marked by moderate tangible net worth, gearing levels and debt protection matrices. The tangible net worth of the company stood at Rs.28.99 Cr. as on 31 March, 2021 as against Rs.23.25 Cr. as on 31 March, 2020.

The gearing level of the company remained moderate at 1.54 times as on 31 March, 2021 as against 1.66 times as on 31 March, 2020. However, the adjusted gearing level stood below unity at 0.92 times as on 31 March, 2021 against 1.06 times same period last year. The total debt outstanding of Rs.44.76 crore consists of working capital borrowings of Rs.14.81 crore, unsecured loan from promoters of Rs.18.22 crore and tem loan of Rs.11.74 crore as on 31 March, 2021.

The coverage ratios of the company remained moderate with Interest Coverage Ratio (ICR) of 4.00 times for FY21 against 3.67 times for FY20. Also, the Debt Service Coverage Ratio (DSCR) stood at 3.23 times for FY21 against 3.17 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.43 times as on March 31, 2021 against 2.44 times as on March 31, 2020. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.22 times for FY21 as against 0.21 times for FY20.

Acuité believes that the financial risk profile of the company is likely to remain moderate over the medium term on account of low gearing levels and healthy debt protection metrics.

Efficient Working Capital Management

The operations of the company are managed efficiently marked by low GCA days of 51 days for FY21 and FY20. The low GCA days is majorly on account of low inventory levels of 32 days for FY21 compared against 26 days for FY20. Subsequently, the debtor days also remained low at 16 days for FY21 against 23 days for FY20. The creditor days of the company stood at 16 days for FY21 as against 15 days for FY20. Furthermore, the creditor days stood at 16 days for FY21 as against 15 days in FY20. However, despite low GCA days the average utilization of the working capital limits of the company remained on the higher side of ~87 percent in last six months ended Jan' 22.

Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Weaknesses

Thin profitability margins along with fragmented and competitive oil industry

The company is engaged into manufacturing of edible oil and the market for edible oil is characterized by thin margin due to value additive nature, high raw material costs and intense competition. The operating profit margin of the company remained volatile and has declined from 4.70% in FY19 to 3.64% in FY20 and subsequently to 3.56% in FY21 majorly on account of increase in raw material costs. The Indian edible oil industry is highly fragmented with 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). The same has resulted in severe competition and inherently thin profitability margins.

Susceptible to fluctuations in raw material prices

RSPL'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 company 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 company 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.

Rating Sensitivities

- Significant improvement in scale of operations and profitability margins
- Stretch in the working capital cycle leading to an increase in reliance on working capital borrowings and stretched liquidity position

Material covenants

None

Liquidity Position: Adequate

RSPL has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.10.02 Cr. in FY21 compared against maturing debt obligations of Rs.1.00 Cr. over the same period. The cash accruals of the company are estimated to remain around Rs.12-20 Cr. during 2022-24 period while its matured debt obligations is estimated to be in the range of 1.20 – 1.40 Cr. during the same period. The company reliance on working capital borrowings is on higher side marked by average utilization of working capital limits of ~87 percent during the last six months period ended Jan' 2022 despite efficient working capital management by the company. Furthermore, the company maintains unencumbered cash and bank balances of Rs.0.57 Cr. as on March 31, 2021 and the current ratio also stood moderate at 1.43 times as on March 31,

2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals and the matured debt repayments over the medium term.

Outlook: Stable

Acuite believes that RSPL will maintain a stable “outlook” in the medium term and will continue to benefit over the medium term due to its experience management and healthy demand of its products in the market. The outlook may be revised to “Positive”, if the company demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining its capital structure through equity infusion. Conversely, the outlook may be revised to “Negative”, if company's generates lower-than-anticipated cash accruals thereby impacting its financial risk profile, particularly its liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	425.60	349.64
PAT	Rs. Cr.	5.76	5.08
PAT Margin	(%)	1.35	1.45
Total Debt/Tangible Net Worth	Times	1.54	1.66
PBDIT/Interest	Times	4.00	3.67

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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Assigned
Union Bank of India	Not Applicable	Term Loan	06-01-2019	7.10	05-01-2024	9.00	ACUITE BBB Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Vaishnavi Deshpande Management Trainee-Rating Operations Tel: 022-49294065 vaishnavi.deshpande@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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