Press Release

Sheel Oil And Fats Private Limited

May 25, 2023

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	247.66	ACUITE A- | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	247.66	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** on the Rs. 247.66 Cr bank facilities of Sheel Oil and Fats Private Limited. The Outlook is **'Stable'.**

Rationale for reaffirmation

The rating on SOFPL takes into account the expected growth in the operating income and stability in operating margins over the medium term. The rating is supported by the experienced management, long track record of operations. These strengths are, however, partly offset by the moderation in operating margin in 9 Month of FY 23, price violatility and intense competition in the Industry.

About Company

Sheel Oil and Fats Private Limited was incorporated in 2009 however, the entity commenced its commercial operations in February 2019. The manufacturing plant of the entity is located in Gandhidham, Gujrat, near Kandla Port. SOFPL is engaged in the manufacturing of edible oils, oleo chemicals, fatty acids, and glycerin. Sheel Chand Agroils Private Limited holds an 80% stake in SOFPL.

About the Group

Sheel Chand Group is promoted by Mr. Mohan Goel and his brother, Mr. Pramod Goel along with family members Mrs. Kanta Devi, Ms. Pinky Goel and Mr. Mohak Goel. The group consists of two companies, Sheel Chand Agroils Private Limited which is the promoter entity, and Sheel Oil and Fats Private Limited, which is the subsidiary entity in which Sheel Chand Agroils Private Limited holds an 80% stake. The group is engaged in manufacturing of edible oils, non edible oils, vanaspathi, glycerin, and oleo chemicals. The group has a combined manufacturing capacity of 5,40,00 MT.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered consolidated business and financial risk profiles of Sheel Chand Agroils Private Limited and Sheel Oil and Fats Private Limited hereafter referred to as 'Sheel Chand Group'. The consolidation is mainly on account of similarity in the line of business, operational synergies and common management.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

The promoters of the group have been in the vegetable oil business for a long time and have more than two decades of experience in the industry. The management has gained valuable experience since the inception of the group and has developed strong relationships with customers and suppliers. This has enabled them to navigate the market and helped grow the group to the scale it is presently operating at. Going forward the group will benefit from the relationships fostered by the management and will be able to grow on a sustainable basis.

Augmentation in the business risk profile

Sheel Chand Group's operations improved, which is apparent from the growth in consolidated revenue from operations by ~19% in FY2022 to Rs. 2110.36 crore as against Rs. 1770.87 crore for FY2021.(improved by ~ 48 percent over the last three years FY 20 to FY 22). The increase in revenue is attributable to growing demand for edible oils and Oleo chemicals.

Furthermore, the group has recorded revenue of Rs ~2553 crore (including interparty sales) for FY 23. The operating profit margin of the group remains stable (minuscule improvement of 6 bps in FY 22). The operating profit margin of group stood at 6.20% in FY2022 as against 6.14% in FY2021. Furthermore, the net profit margin of the group also improved by 39 bps and stood at 2.23 percent in FY2022 as against 1.84 percent in FY2021. ROCE of the group stood at 14.17 times in FY2022.

Financial risk profile

Group has healthy financial risk profile marked by healthy net worth and comfortable debt protection metrics. Group's net worth stood at Rs~310 Cr as on 31st March 2022 as against Rs.~239 Cr as on 31st March 2021.Networth improved on account of profit accretions and unsecured loans treated as quasi equity.

Group follows a conservative leverage policy. Gearing levels (debt-to-equity) witnessed a minuscule improvement and stood at 1.44 times as on March 31, 2022 as against 1.48 times in FY 2021. The gearing ratio in FY22 witnessed minuscule growth despite of healthy profits due to additional debt taken by SOFPL in form of optionally convertible debentures of Rs 50 crore. The outstanding debt of the group is Rs. 446.58 crore as on 31 March, 2022 which consists of long term borrowings of Rs.118.88 crore, short term working capital limit of Rs.276.69 crore and current maturities of long term debt Rs 20.84 crore.

Further, the interest coverage ratio stood strong at ~5 times for FY2022 as against 3.10 times in FY2021. debt service coverage ratio stood comfortably at 2.28 times for FY2022 as against 1.75 times in FY2021.Total outside liabilities to total net worth (TOL/TNW) stood at 1.68 times as on FY2022 vis-à-vis 1.60 times as on FY2021. However, Debt-EBITA stood at 3.53 times as on 31st March 2022 as against 2.89 times as on 31st March 2021. The net cash accruals to total debt stood at 0.18 times as on FY2022 and 0.20 times for FY2021. The financial risk profile of the group is expected to remain comfortable in near term as the group does not have any new capex plans in the short term.

Working capital operations

Group has moderate working capital requirements as evident from gross current assets (GCA) of 102 days in FY2022 as compared to 91 days in FY2021. Debtor moderated by 18 days and at 30 days in FY2022 (12 days in FY2021). Inventory days stood at 52 days in FY2022 as against 58 days in FY2021. Fund based working capital limits are utilized at ~88 per cent during the last six months ended March 23.Current ratio of group stood at 1.59 times as on March 31, 2022.

Weaknesses

Competition in Edible Oil Industry

The industry is highly fragmented with both big manufacturers and numerous unorganised players in the market. There is intense competition in the industry with the players serving regional markets, which is a strategy followed to save on transportation costs. Hence, the group might face pricing pressure from other competitors. Therefore, having an established brand name is of utmost importance in this industry, along with the continuous addition of value added products in the product offerings.

Price volatility in the commodity market
Prices of edible oil are linked to prices of crude palm oil which is volatile and the sudden movement in price direction might affect the margins of the group going forward. The raw materials are also purchased from the international market apart from the domestic market, and disruptions in the supply chain can affect the availability of raw materials and further impact the price of raw materials.

Rating Sensitivities
Improvement in profitability margins.
Movement of raw material prices
Elongation in working capital operations

Material Covenants
None

Liquidity Position
Adequate
Group has adequate liquidity marked by net cash accruals to its maturing debt obligations. Group generated cash accruals of Rs. 78.57 crore for FY2022 as against obligations of Rs. 20.32 crore for the same period. Current Ratio stood at 1.59 times as on 31 March 2022 as against 1.94 times in the previous year. Fund based working Limit utilization in last six months ended March 23 ~88% leaving low cushion available with group to meet contingencies. Cash and Bank Balances of group stood low at Rs 0.30 crore. Group has unencumbered Fixed Deposits of Rs 5.65 crore as on March 31, 2022. The liquidity of the group is further expected to improve with group expected to generate cash accruals in the range of Rs. 80 Cr. against repayment of ~Rs. 21 Cr. will also support the liquidity of the company.

Outlook:
Acuité believes that Sheel Chand Group will maintain a 'Stable' business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues, while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	2110.36	1770.87
PAT	Rs. Cr.	47.10	32.66
PAT Margin	(%)	2.23	1.84
Total Debt/Tangible Net Worth	Times	1.44	1.48
PBDIT/Interest	Times	4.99	3.10

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

None

Any Other Information

None

Applicable Criteria

• Application Of 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
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Mar 2022	Cash Credit	Long Term	65.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	15.05	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	57.61	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	60.00	ACUITE A- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A- | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE A- | Stable | Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE A- | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	9.10	ACUITE A- | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.30	ACUITE A- | Stable | Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	39.26	ACUITE A- | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.