



Press Release
Karnani Solvex Private Limited
June 13, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	61.94	ACUITE BB Stable Assigned	-
Bank Loan Ratings	0.75	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	62.69	-	-

Rating Rationale

ACUITE has assigned its long term rating of **ACUITE BB (Read as ACUITE double B)** and short term rating of **ACUITE A4+ (Read as ACUITE A four plus)** on the bank facilities of Rs62.69 Crore of **Karnani Solvex Private Limited (KSPL)**. The outlook is 'Stable'.

Rationale for Rating assigned

The rating takes into account the extensive experience of the promoters and established track record of operations of more than a decade in the oil industry. The company have set up a unit of 350MT Per Day of De-Oiled Cake and 50MT per day refinery of Mustard Solvent Refined Oil. The rating also factors in the marginal improvement in revenues which stood at Rs.291.11 Cr. in FY23(Provisional) compared against revenues of Rs.285.27 Cr. in FY22 majorly on account of the existence of brand "Chetanya" in the market. Furthermore, the working capital operations are efficiently managed by the company. However, the rating is constrained by moderate financial risk profile with low net-worth and high gearing levels. Also, the profitability of the company remains susceptible to volatility in the raw material prices.

About the Company

Karnani Solvex Private Limited was established in the year 2007 at Jaipur, Rajasthan (India). Karnani Solvex Private Limited Manufactures Rapeseed Meal (De-Oiled Cake) and Mustard Solvent Oil. The factory is situated at Village – Gothda, District- Jaipur, Rajasthan. They have a capacity of 350MT Per Day of De oil Cake and 50MT per day refinery of Mustard Solvent Refined Oil. The directors of the company are Mr. Sanjay Kumar Karnani and Mr. Narayan Karnani.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of KSPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and moderate track record of operations

KSPL was incorporated in 2007. The Final products include De-oiled cakes and Mustard solvent oil. The directors of the company are Mr. Sanjay Kumar Karnani and Mr. Narayan Karnani. With the expertise and experience in industry gained over the years. The long-term

presence in the industry has helped KSPL garner reputed clientele which include names like Maruti Agro traders, Vedic India, Wilmar Trading Pte Limited etc. Acuité believes that going

ahead, the promoter's experience would continue to support KSPL's growth.

Stable operational performance

The company has achieved a turnover of Rs.291.11 Cr. in FY23(Provisional) majorly on account of existence of brand "Chetanya" in the oil industry. The operations of the company marginally improved in FY23 as compared to Rs.285.27 Cr. in FY22. The increase in revenues was also supported by increase in production capacity of the processing facilities from 71.4% in FY22 to 80% in FY23 for De-oiled cake and increase in production capacity from 30% in FY22 to 50% in FY23 for Mustard solvent oil. Furthermore, the revenues of the company will likely to increase over the near term on account of full utilisation of its capacity. However, the profitability of the company remained low reflected by operating profit margin of 1.31% in FY22 and 1.52% in FY23 (Provisional). The profitability margins of the company remain susceptible towards volatility in raw material prices and company incurred losses in FY22 as company withdrawn its appeal for the financial year 2009-10 and 2011-12 and paid income tax for Rs.3.17 Crore under Vivad se Vishwas Scheme.

Acuité believes that the scale of operations of the company will continue to show improvement over the medium term on an account of optimum utilisation of its processing facility.

Working Capital intensive Operations

The company's operations are working capital efficient as evident from Gross Current Asset (GCA) of 71 days as on March 31, 2023(Provisional), as against 84 days as on March 31, 2022. The inventory levels have improved and stood at 51 days for FY2023(Provisional) compared against 65 days for FY2022. The debtor days stood at 16 days for FY2023(Provisional) against 15 days for FY2022. The average credit period allowed to the customers is around 10-12 days. The creditor days of the company stood at 10 days for FY2023 (Provisional) as against 20 days for FY2022. The average credit period received from the customers is around 5 days. The company needs to pay the suppliers immediately after procuring the raw material. The average utilization of the CC limits of the company remains high at ~77.31 percent in last twelve months ended March 2023 (Provisional). Acuité believes that the working capital operations are likely to remain efficient in the medium term.

Weaknesses

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by low net-worth, high gearing and moderate debt protection metrics. The net worth of the company stood low at Rs.23.28 Cr. as on 31 March 2023(Provisional) against Rs.23.04 Crore in FY22 on an account retention of profit in business. The gearing level of the company remain high at 2.04 times as on 31 March 2022 on account of high debt levels and low net worth. The total debt of the company stood at Rs.45.01 crore as on 31 March 2023 (Provisional) against Rs.46.97 Crore in FY22. Furthermore, the Debt-equity ratio of the company is estimated to further deteriorated to 1.93 times as on 31 March 2023 (Provisional). The TOL/TNW ratio stood at 2.26 times in FY23(Provisional) and debt-EBITDA also stood high at 10.11 times during the same period. Further, debt protection metrics of the company remain deteriorated with interest coverage ratio and Debt Service coverage ratio stood of 1.27 times and 0.95 times respectively in FY23(Provisional). Acuité believes that the financial risk profile of the company will continue to remain high leveraged and it will remain a key sensitivity factor.

Susceptibility to fluctuations in agro-based raw material price

Operations are exposed to the inherent risks associated with the agriculture based commodity business, such as availability of raw materials, fluctuations in prices, and changes in government regulations. 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. Further, the demand-supply of vegetable oil and is affected by change in regulations in exporting and importing countries.

Rating Sensitivities

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Sharp fluctuation in prices of raw material
- Further deterioration in the liquidity position

Material covenants

None.

Liquidity Position Stretched

The liquidity position of the company is stretched as marked by low net cash accruals against matured debt obligations. The company net cash accruals of Rs.0.89 Crore in FY23 against matured debt repayment obligations of Rs.1.14 Cr in the same period, however, the same is partly off-set by the need based funds support extended by the promoters of the company. Going forward, the company is estimated to achieve net cash accruals of Rs.1.44 Crore in FY24 against debt repayment obligation of Rs.1.40 Crore in the same period. The average bank limit utilization of fund based facilities stood at 77.31% in last 12 months ending March 2023 (Provisional). The current ratio of the company stood at 1.56 times in FY23(Provisional) against 1.54 times in FY22. The unencumbered cash and bank balance stood at Rs.0.34 Crore as on 31st March 2023 (Provisional) against Rs.0.28 as on 31st March 2022. Acuité believes that the liquidity position of the company will continue to remain stretched on account of low net accruals.

Outlook: Stable

Acuité believes that KSPL would maintain 'Stable' outlook on the back of experienced management, healthy revenue growth and timely support from the promoters through equity infusion. The outlook may be revised to 'Positive' in case the company reports better than expected improvement in the revenue and operating margins. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue, or any further stretch in the working capital utilisation thereby affecting its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	291.11	285.27
PAT	Rs. Cr.	0.24	(2.96)
PAT Margin	(%)	0.08	(1.04)
Total Debt/Tangible Net Worth	Times	1.93	2.04
PBDIT/Interest	Times	1.27	0.22

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

None

Any other information

Not applicable.

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

In order to inform the investors about complexity of instruments, Acuite 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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	48.70	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.75	ACUITE A4+ Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.60	ACUITE BB Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.24	ACUITE BB Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.00	ACUITE BB Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.40	ACUITE BB Stable Assigned

*Proposed short term bank facility is forward contract limit from Bank of Baroda.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Depanshi . Analyst-Rating Operations Tel: 022-49294065 depanshi.mittal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

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