



Press Release
Karnani Solvex Private Limited
September 06, 2024
Rating Downgraded

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

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB-**' (Read as **ACUITE double B minus**) from '**ACUITE BB**' (Read as **ACUITE double B**) and short term rating at '**ACUITE A4**' (Read as **ACUITE A four**) from '**ACUITE A4+**' (Read as **ACUITE A four plus**) on the Rs.62.69 Cr. bank facilities of Karnani Solvex Private Limited. The outlook is '**Stable**'.

Rationale for Downgrade

The recommendation factors in a stable business risk profile with slight decline in margins. Also, the liquidity of the company has weakened slightly as reflected by net cash accruals which are insufficient to repay the debt repayment and the shortfall were met by bringing in unsecured loans. The rating draws comfort from the experienced management and the established track record of operations in the same line of business, increase in operating revenue which stood at Rs.338.60 Cr. in FY2024 (Prov.) as against Rs.291.11 Cr. in FY2023. However, the company witnessed decline in the operating margin which stood at 1.36% in FY 2024 (Prov.) against 1.53% in FY 2023 due to incremental expenses. Further, the working capital operations of the company are moderate where in average fund based utilization stood at 74.62 % in last nine months ended May 2024. The rating is further constrained by the demand and supply demographics due to highly competitive and fragmented industry, average financial risk profile exhibited by gearing which stood at 2.48 times as on 31st March 2024 (Prov.) as against 1.93 times as on 31st March 2023 and coverage indicators reflected by interest coverage ratio and debt service coverage ratio which stood at 1.27 times and 0.90 times respectively as on 31st March 2024 (Prov.).

About the Company

Karnani Solvex Private Limited (KSPL), incorporated in 2007. The company is engaged in manufacture of rapeseed meal (De-Oiled Cake) and mustard solvent oil. The present

directors of the company are Mr. Narayan Karnani and Mr. Sanjay Kumar Karnani. The registered office of the company is in Rajasthan.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Karnani Solvex Private Limited 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. The expertise and experience in industry gained over the years and the long term presence in the industry has helped KSPL garner reputed clientele which include names like Adani Wilmar Ltd, Agrocrop International PTE Ltd, Wilmar Trading PTE Ltd, etc. Acuité believes that going ahead, the promoter's experience would continue to support KSPL's growth.

Moderate Working Capital operations

The working capital operations of the company is moderate marked by GCA days which stood at 78 days as on 31st March 2024 (Prov.) as compared to 71 days as on 31st March 2023. The debtor days of the company stood at 36 days as on 31st March 2024 (Prov.) against 16 days as on 31st March 2023. The increase in exports resulted into higher debtor days as compared to previous year. Further, the inventory holding improved and stood at 39 days as on 31st March 2024 (Prov.) against 51 days as on 31st March 2023 and the creditor days stood constant at 10 days as on 31st March 2024 (Prov.) as compared to previous year. In addition, the average fund based bank limit utilization of the company stood at 74.62% in last nine months ended May 2024. Acuité believes that the working capital operations of the company will remain at similar levels in near to medium term.

Weaknesses

Susceptibility to fluctuations in agriculture based commodity business

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 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 is affected by change in regulations in exporting and importing countries.

Average Financial Risk Profile

The financial risk profile of the company is average marked by net-worth of Rs.23.64 Crore as on 31st March 2024 (Prov.) against Rs.23.28 Crore as on 31st March 2023. The modest increase in the net-worth is on an account of low accretion of profits to reserves. Further, the total debt of the company stood at Rs.58.52 Crore as on 31st March 2024 (Prov.) against Rs.45.00 Crore as on 31st March 2023. The capital structure of the company is marked by gearing ratio of the company which stood at 2.48 times as on 31st March 2024 (Prov.) against 1.93 times as on 31st March 2023. Further, the coverage indicators of the company are reflected by interest coverage ratio and debt service coverage ratio, which stood at 1.27 times and 0.90 times respectively as on 31st March 2024 (Prov.) as against 1.29 times and 0.96 times respectively as on 31st March 2023. The TOL/TNW ratio of the company stood at 2.85 times as on 31st March 2024 (Prov.) against 2.25 times as on 31st March 2023 and DEBT-EBITDA of the company stood at 12.61 times as on 31st March 2024 (Prov.) against 10.01 times as on 31st March 2023. In addition, the company has no capex plans in near to medium term. Going Forward, Acuité expects that the financial risk profile of the company is likely to remain similar in near to medium term and will remain a key rating sensitivity.

Rating Sensitivities

- Improvement in scale of operations while maintaining profitability margin.
- Sharp fluctuation in prices of raw material.
- Any further deterioration in the liquidity position.
- Improvement in debt protection metrics.

Liquidity Position **Stretched**

The liquidity profile of the company is stretched marked by net cash accruals of Rs.0.92 Cr. as on 31st March 2024 (Prov.) against the debt repayment obligation of Rs.1.41 Cr. over the same period. Going forward, the company is expected to generate net cash accruals under

the range of Rs.0.9 Cr. to Rs.1.10 Cr. against the debt repayment obligations of up to Rs.4.38 Cr. over the same period. The shortfall is expected to be met by bringing in unsecured loans. The current ratio of the company stood at 1.33 times as on 31st March 2024(Prov.) against 1.56 times as on 31st March 2023. Further, the cash and bank balance available with the company stood at Rs.0.32 Cr. as on 31st March 2024 (Prov.). Acuité believes that going forward the company is expected to remain in line with the previous year hence the ability of the company to manage and improve its liquidity position will remain a key rating sensitivity.

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 in form of unsecured loans to meet debt repayment obligations. The outlook may be revised to 'Positive' in case the company reports better than expected improvement in the revenue and operating margins or debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue, or reports delays in meeting debt obligations timely or any further stretch in the financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	338.60	291.11
PAT	Rs. Cr.	0.29	0.24
PAT Margin	(%)	0.09	0.08
Total Debt/Tangible Net Worth	Times	2.48	1.93
PBDIT/Interest	Times	1.27	1.29

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>
- Manufacturing Entities: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Jun 2023	Proposed Short Term Bank Facility	Short Term	0.75	ACUITE A4+ (Assigned)
	Term Loan	Long Term	0.40	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	48.70	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	11.00	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	0.60	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	1.24	ACUITE BB 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
Bank of Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	48.70	ACUITE BB- Stable Downgraded (from ACUITE BB)
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.75	ACUITE A4 Downgraded (from ACUITE A4+)
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	15 Jan 2027	Simple	0.60	ACUITE BB- Stable Downgraded (from ACUITE BB)
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Jan 2027	Simple	1.24	ACUITE BB- Stable Downgraded (from ACUITE BB)
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	10 Jan 2027	Simple	11.00	ACUITE BB- Stable Downgraded (from ACUITE BB)
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2025	Simple	0.40	ACUITE BB- Stable Downgraded (from ACUITE BB)

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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.

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