Press Release
Manickavel Edible Oils Private Limited
September 01, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	85.00	-	ACUITE A4+ | Assigned
Total Outstanding Quantum (Rs. Cr)	85.00	-	-

Rating Rationale
Acuite has assigned its short term rating of **ACUITE A4+ (read as ACUITE A four plus)** on the Rs.85.00 Cr bank facilities of Manickavel Edible Oils Private Limited.

Rating Rationale
The rating assigned takes into account the long operational track record of the company and the extensive experience of promoters of more than two decades in the manufacturing and trading of refined palm oil. The rating further derives strength from the moderate working capital management of the company and moderate financial risk profile marked by comfortable coverage indicators. The adequate liquidity position as visible in the sufficient net cash accruals against nil long term debt repayment, further supports the rating. The company earmarks fixed deposits for meeting letter of credit (LC) obligations and some LCs are opened against 100% margin as and when required. However, these strengths are partly offset by moderation in the scale of operations in FY23 (prov) on account on split of operations (in turn, Letter of Credit) into other group companies, thin profitability margins due to the trading nature of operations, fragmented and competitive nature of industry and susceptibility to fluctuations in raw material prices and foreign currency fluctuation risk.

About the Company
Incorporated in 2002, Manickavel Edible Oils Private Limited (MEOPL), is engaged in the trading of palm oil. It imports crude palm oil from Singapore and Malaysia and sells refined palm olein across Kerela and Tamil Nadu. MEOPL does not have manufacturing facility of its own, the oil refining section of the company is done on job work from its group companies. It has its registered office in Virudhunagar, Tamil Nadu. MEOPL market its product under the brand name 'YENTOP'.

Analytical Approach
Acuite has considered the standalone business and financial risk profile of MEOPL to arrive at the rating.

Key Rating Drivers

Strengths
Long track record of operations and experienced management
Yentop group, established by Mr. Manickavel has a long operational track record of over six decades in the manufacturing and trading of refined palm oil. The second-generation promoters, Mr. Nagalingam and Mr. Mathavan have over two decades of experience in the industry. The long track record of operations of the company have helped it to establish long

standing relationship with customers and suppliers over the period. Acuite believes that long track record of operations and extensive experience of the management shall support the business risk profile to an extent.

Average financial risk profile
The company's financial risk profile is marked by moderate net worth base, high gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.50.43 Cr as on March 31, 2023 (Prov) from Rs.48.25 Cr as on March 31, 2022, due to accretion of profits to reserves. Gearing of the company improved, still stood high at 1.77 times as on March 31, 2023 (Prov) as against 1.82 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 5.23 times as on March 31, 2023 (Prov) as against 11.37 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest coverage Ratio of 4.69 times as on March 31, 2023 (Prov) against 2.11 times as on March 31, 2022; and Debt Service Coverage Ratio at 3.61 times as on March 31, 2023 (Prov) as against 1.77 times as on March 31, 2022. Until FY2022, the company held one LC of ~Rs.325.00 Cr, however in FY23, the LCs were split into other three group companies (M.M. Nagalingam Refineries Private Limited, Yentop Coir Private Limited and M.M.N. Manickavel Coir Private Limited), lowering MEPL's interest cost in FY23. Therefore, on the back of decreased interest expense, the coverage indicators improved in FY23. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.03 times as on March 31, 2023 (Prov) as against 0.04 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

Moderation in business risk profile in FY23
The operating income of the company declined to Rs.762.26 Cr in FY2023 (Prov) as against Rs.1358.89 Cr in FY2022, registering an y-o-y decline of ~44 per cent. The dip in operating income is on the account of split of operations of the company into other three group companies, which demanded the division of Letter of Credit (LC) facility. Until October 2022, the company had ~Rs. 325.00 Cr LC facility, which was later split into three group companies, thereby limiting the company's ability to import more due to decrease in LC limit for MEOPL.

The operating margin of the company declined to 0.15 per cent in FY23 (Prov) as against 0.29 per cent in FY2022 on account of decline in scale of operations. The company is engaged in the trading of refined palm oil where margins are relatively low. The PAT margin, however, increased to 0.29 per cent in FY2023 (prov) as against 0.24 per cent in FY2022 due to decline in interest expense. Acuite believes that the profitability margins shall be range bound in the near to medium term on account of trading nature of operations.

Moderate working capital management
The moderate working capital management of the company is marked by GCA days of 127 days in FY2023 (Prov) as against 128 days in FY2022. The inventory period stood at 59 days in FY2023 (prov) as against 51 days in FY2022. Further, the debtor's period stood constant at 75 days in both FY2023 (Prov) and FY2022.

Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors improved still stood high at 83 days in FY2023 (Prov) as against 124 days in FY2022. Sustained improvement in creditors will remain a key monitorable. Acuité believes that the working capital management of the company will remain almost at the same level over the medium term as evident from moderate levels of inventory and debtors.

Fragmented nature of industry and vulnerability to fluctuation in price of commodities and currency rates
The edible oil industry is highly fragmented and competitive in nature marked by the presence of several players in the different value chains of edible oils. Also, edible importers don't enjoy any brand advantages and have very limited bargaining power and thus operate at very thin margins. The competition risk in the industry is more pronounced due to the vulnerability of importers' profitability with several factors like international crude edible oil

price and foreign exchange fluctuations. Moreover, MEOPL procures crude palm oil from Singapore and Malaysia and sells them in the domestic market, thereby exposing itself to foreign exchange fluctuation risk. Although, the company hedges its forex risk through option and forward contract, it is still exposed to foreign exchange movement risk.

Rating Sensitivities

- Sustained improvement in the revenue along with improvement in profitability margins
- Elongation of working capital cycle

All Covenants

None.

Liquidity Position

Adequate

The company has an adequate liquidity position marked by net cash accruals of Rs.2.61 Cr in FY2023 (prov) as against no long-term debt repayment over the same period. Further, the current ratio improved and stood moderate at 1.79 times as on March 31, 2023 (prov) as against 1.29 times as on March 31, 2022. The unencumbered cash and bank balance of the company stood at Rs.3.64 Cr as on March 31, 2023 (Prov) as against Rs.5.28 Cr in FY2022. Furthermore, the company earmarks fixed deposits for meeting letter of credit (LC) obligations and some LCs are opened against 100% margin as and when required. The bank deposits stood at Rs.40.72 Cr as on March 31, 2023 (Prov) as against Rs.114.84 Cr as on March 31, 2022. The decline in bank deposit in FY23 is due to the split of LC into other group companies in October 2022. However, the LC limits remained utilised at ~97 per cent for six months June'23. Moreover, the working capital management of the company is moderate marked by Gross Current Assets (GCA) of 127 days in FY2023 (Prov) as compared to 128 days in FY2022. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes the outlook on MEOPL will remain 'stable' over the medium term backed by experience of its promoters and long operational track record of the company. The outlook may be revised to 'Positive' in case of significant growth in revenue 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 company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	762.26	1358.89
PAT	Rs. Cr.	2.18	3.26
PAT Margin	(%)	0.29	0.24
Total Debt/Tangible Net Worth	Times	1.77	1.82
PBDIT/Interest	Times	4.69	2.11

Status of non-cooperation with previous CRA (if applicable)
CRISIL vide its press release dated 15th Nov 2022 had rated the company to CRISIL B/stable/A4 ; Issuer Not Cooperating.

Any other information
None.

Applicable Criteria
- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.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, 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 :
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
Indian Overseas Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	85.00	ACUITE A4+ | Assigned

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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.