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ICRA upgrades the ratings for bank facilities of Itarsi Oils & Flours Limited; assigns stable outlook

ICRA has upgraded the rating for the Rs. 45.00 crore Fund Based (Cash Credit / Export Packing Credit) and Rs. 18.66 crore Term Loan limits of Itarsi Oils & Flours Limited (IOFL) to LBB+ (pronounced L double B plus) from LB+ (pronounced L B plus). ICRA has also upgraded the short term rating from the Rs. 45.00 crore Fund Based (Cash Credit / Export Packing Credit) and Rs. 5.00 crore Non-Fund based (Letter of Credit) limits of IOFL to A4+ (pronounced A four plus) from A5 (pronounced A five). The outlook on the long-term rating is Stable.

The rating revision takes into account the streamlining of debt servicing in the recent past with the company having introduced adequate internal controls, as reflected by timely repayment in the last quarter. The rating, however, continues to be constrained by the inherently low value addition in the business, high competitive intensity in the edible oil industry, the vulnerability of the company's profitability on availability and prices of soya and its' low operating and net margins. Being in commodity business IOFL is susceptible to the vagaries of the demand-supply scenarios and product pricing in open market, which can also impact its financial position given the raw material intensive nature of the business. The ratings favourably factor in the promoter's established position in the soya industry, location advantage arising out of proximity to the raw material source as well as major ports for exports and IOFL's presence in the niche segment of Hipro DOC (de-oiled cake), which yields higher realizations. Going forward, the company's ability to strengthen its internal systems and controls and ensure timely debt servicing remains key rating sensitivity.

Company Profile

Itarsi Oils & Flours Ltd. (IOFL), incorporated in 1987, is involved in the solvent extraction and refining of edible oil; flour milling and trading of commodities like gram, wheat, soya oil and soybeans. It produces soya de-oiled cake (DOC), also known as soyameal through solvent extraction, which is used for animal feed. Headquartered in Mumbai, the company has solvent extractions plants and refineries in Itarsi and Khandwa, Madhya Pradesh. IOFL is a subsidiary of Raipur based KN Group which is engaged in both agro processing and trading activities.

In FY 2010, the company reported a net profit of Rs. 7.3 crore on an operating income of Rs. 506.2 crore as against a net profit of Rs. 6.6 crore on an operating income of Rs. 437.4 crore in FY 2009.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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