August 13, 2024

Vaibhav Edibles Private Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]BBB(Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating considers Vaibhav Edibles Private Limited's (VEPL) established business operations in the edible oil segment, the presence of its various brands and a well-entrenched distribution network in Central India. Around 60-65% of VEPL's revenue is derived from the sale of packaged oil, 25-30% from loose oil and the remaining is from the trading of edible oil. The company's financial risk profile is characterised by a strong capital structure, adequate coverage indicators and modest working capital intensity. VEPL has experienced average revenue growth of 12-13% over the past three years, with an average operating margin of 2-3% during the same period.

Following the moderation in edible oil price realisations in FY2024, the company's operating profitability declined to 2% compared to 2.7% in FY2023. ICRA notes that ~60% of VEPL's edible oil production is rice bran oil, with raw materials sourced domestically, leading to relatively lower volatility compared to imported oils such as soyabean, sunflower and others. The company maintains a comfortable cushion in its working capital limits, largely funding these requirements through internal accruals. Further, the rating factors in the extensive experience of the promoters and the financial flexibility (as evidenced by ~ Rs. 38.9 crore of unsecured loans as on March 31, 2024) they provide to support VEPL's liquidity profile of VEPL. The rating also considers the favourable long-term business demand for the organised agro-processing industry, driven by changing lifestyles, increasing purchasing power and the growth of modern retail operations.

The rating, however, is constrained by VEPL's exposure to commodity price cycles. The company's operating margins contracted in FY2024 due to moderate sales realisation, which it was unable to fully pass on to the customers. VEPL procures raw edible oil and distributes refined oil in the country, with major sales concentrated in Uttar Pradesh and Madhya Pradesh. Further, intense competition in the food processing industry and limited value addition result in modest margins for VEPL. The company remains exposed to agro-climatic risks, which could impact raw material availability and prices, as well as regulatory risks associated with food-related items, which are essential commodities. Being part of the food industry, VEPL's quality and reputation-related risks are high, which could impact its pricing strength and business.

The Stable outlook on the rating reflects ICRA's opinion that the company is likely to sustain its operating metrics, even though its revenue may remain volatile due to price fluctuations. Further, the outlook underlines ICRA's expectation that the company's low utilisation of the working capital limit will help maintain the liquidity cushion, allowing it to consistently uphold its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Strong position with established brand name in the region and direct wholesale marketing – VEPL oversees major brands such as Jhoomer, Jugnu, Chahak, Do dhani, Vaibhav, Shahnai, Primelite, Royalcook and Jiolite, which offer products like rice bran oil, soyabean oil, sunflower oil, Mustard oil, linseed oil and others. The company sells directly to wholesalers, brokers and major manufacturing companies. VEPL also plans to enter the FMCG sector in the near future.

Financial profile characterised by healthy capital structure, adequate coverage indicators with low working capital intensity – VEPL reported total revenue of Rs. 1,510.8 crore, with OPBITDA margin of 2.0% and PAT margin of 1.0% in FY2024. ICRA expects revenue to improve marginally, while margins are anticipated to remain in a similar range in FY2025, driven by strong local demand of edible oil in Bihar and Uttar Pradesh. As of FY2024, VEPL had a total debt of Rs. 54.50 crore, including Rs. 38.9 crore in unsecured loans from the promoters. This has resulted in a relatively lower reliance on working capital, leading to interest coverage of 8.1 times in FY2024 (13.1 times in FY2023), with a capital gearing ratio of 0.3 times and total debt/OPBITDA of 1.8 times in FY2024. ICRA expects these coverage metrics to improve marginally in FY2025.

Extensive experience of management – The company's promoters have about six decades of experience in the edible oil industry.

Credit challenges

Vulnerability of profitability to fluctuations in raw material prices and intense competition in the industry – India remains dependent on edible oil imports from countries such as Indonesia, Malaysia, Ukraine and Russia. VEPL's ~60% of capacity is for rice bran oil, for which the raw material is procured locally. For the remaining capacity, VEPL imports raw materials through high-seas agreements as needed. The volatility in raw material prices is evident from the fact that the raw material to operating income ratio has ranged 60-70% over the past five years. In addition, the Indian edible oil industry is intensely competitive due to a large unorganised market and a few large, organised players.

Exposed to agro-climatic and regulatory risks – The Government of India regulates import duties and agri-cess, which represents a significant regulatory risk for the industry. The company's profitability remains exposed to volatility in agro-commodity prices and regulatory changes. In FY2022 and FY2023 the company benefitted from strong domestic demand and favourable prices in the edible oil segment. However, sharp contractions in FY2024 due to corrections in agro-commodity prices resulted in reduced profit margins.

Exposure to quality-related risks – As the company operates within the food industry, it faces significant quality and reputation-related risks. Any unforeseen quality lapse could have a long-term impact on the firm's business and brand development.

Liquidity position: Adequate

VEPL's liquidity is adequate, with negligible average utilisation in working capital limit of Rs. 36 crore in FY2024. In addition, the promotors have infused unsecured loans of Rs. 38.9 crore as of March 2024 and are expected to provide need-based funding. VEPL has cash and bank balance of Rs. 1.08 crore as on March 2024. Further, the company has no major capex plans in future. Its scheduled debt repayment obligations for FY2025 is Rs. 2.4 crore, while the company is expected to generate net cash accruals of Rs. 20-23 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained growth in its revenue while maintaining its operating profitability leading to comfortable coverage metrics and an improvement in liquidity profile.

Negative factors – Pressure on rating or outlook could arise if there is a sustained decline in the revenue or a sustained decline in operating profitability leading to a deterioration in the credit metrics. Any further investment in group companies which adversely impacts the liquidity profile or coverage metrics would be a credit negative. Specific credit metric that could lead to a downgrade of VEPL's rating include Interest coverage less than 3 time on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Agricultural Food & Products - Edible Oil
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of Vaibhav Edibles Private Limited and its associate, SNG Solvents Private Limited. Vaibhav Edibles Private Limited has provided a corporate guarantee to SNG Solvents Private Limited.

About the company

M/s Vaibhav Edibles Private Limited, incorporated in 2003, is primarily involved in refining and trading business of edible oils. Mr. Mahesh Chandra Jain is the company's Managing Director and is also associated with the board of several prominent companies within the Group.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	1,825.0	1,510.8
PAT	31.2	15.1
OPBDIT/OI	2.7%	2.0%
PAT/OI	1.7%	1.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	1.1	1.8
Interest coverage (times)	13.1	8.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA:

Name of the CRA	Date of Press Release	Rating Action
CRISIL	February 15, 2021	CRISIL B+/Stable (Migrated from 'CRISIL B+/Stable ISSUER NOT COOPERATING**'; Rating Withdrawn)
INDIA rating	January 12, 2024	IND BB/Stable/ IND A4+(ISSUER NOT COOPERATING); Maintained in non-cooperating category

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 13, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Issuer	Long Term	0.00	[ICRA]BBB (Stable)	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	-	-	-	-	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis - Not applicable.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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