

April 07, 2021

Sri Priyanka Agro Enterprises Private Limited: Rating upgraded and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	16.00	16.00	[ICRA]BB; Upgraded from [ICRA]BB- and outlook revised to Stable from Positive
Long-term – Fund-based/TL	0.30	1.60	
Long-term – Fund-based/SBLC	7.40	7.40	
Long-term – Unallocated	1.30	0.00	
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The rating considers the consolidated operational and financial profile of Sri Priyanka Agro Enterprise Private Limited (SPAEL) and its wholly-owned subsidiary Geo Min Commodities Pte. Ltd. (GMCPL), given the same management, operational and financial linkages.

The rating upgrade takes into account the improvement in the consolidated operating profits, driven by increased profitability in SPAEL's rice bran oil extraction and refining, along with addition of new products for supply by GMCPL. The rating considers the favourable location of SPAEL's manufacturing facility near the rice producing belt of Andhra Pradesh, which facilitates easy availability of raw material i.e., rice bran. The rating factors in the extensive experience of the promoters in the edible oil industry and the favourable demand outlook for rice bran oil due to its significant health benefits, easy availability in India and competitive pricing compared to soya bean, sunflower oil and olive oil.

The rating is, however, constrained by the company's moderate financial risk profile with gearing of 1.69 times as on December 31, 2020, interest coverage of 2.31 times and Debt/OPBDIT of 6.64 times in 9M FY2021. Further, the business is highly working capital-intensive in nature owing to high inventory levels. The rating also notes the exposure of its profitability to agro-climatic risks and fluctuations in raw material prices amid intense competition from various organised players in the industry.

The Stable outlook on the long-term rating reflects ICRA's belief that the Group will benefit from the extensive experience of promoters in the edible oil industry and proximity of its manufacturing facility to the rice producing belt of Andhra Pradesh.

Key rating drivers and their description

Credit strengths

Experienced promoters in edible oil industry – Incorporated in 1990, SPAEL is involved in the extraction of rice bran oil for the past 25 years. Mr. N.V.S. Shiva Prasad is the Managing Director of the company and looks after its day-to-day operations. GMCPL was incorporated as a wholly-owned subsidiary in April 2016 and is in the export of barites, limestone, gypsum, along with trading of minerals and edible oils.

Improvement in operating profitability margins in 9M FY2021 – The operating margins improved to 7.15% in 9M FY2021 from 1.04% in FY2020 on account of an improvement in margins from the refinery and extraction unit with an increase in rice bran oil (RBO) prices and reduced share of trading revenues. Further, GMCPL has not undertaken trading activity in FY2021 owing to the adverse impact of the pandemic on global trade.

Presence in rice producing belt provides location-specific advantage – The company has a rice bran oil extraction unit in Nellore district, Andhra Pradesh. Given the plant's presence in the rice producing belt of Andhra Pradesh, it is able to procure raw material (rice bran) easily resulting in logistical savings.

Favourable demand prospects for rice bran oil – Rice bran oil is easily available in India with significant health benefits and competitive pricing compared to soya bean, sunflower oil and olive oil, which supports the demand for rice bran oil over the medium term.

Credit challenges

Moderate financial risk profile – The consolidated debt increased to Rs. 26.65 crore as on December 31, 2020 from Rs. 19.59 crore as on March 31, 2019 on account of an increase in working capital utilisation and availing the new Covid-19 Relief Loan of Rs. 4.83 crore in FY2021. The total debt of Rs. 26.65 crore as on December 31, 2020 comprised working capital borrowings of Rs. 21.12 crore, term loans of Rs. 4.83 crore and interest-free unsecured loans of Rs. 0.70 crore. The gearing remained high at 1.69 times owing to moderate net worth levels of Rs. 15.76 crore as on December 31, 2020. The coverage indicators remained moderate with interest cover of 2.31 times, TD/OPBDIT of 6.64 times and NCA/TD at 9% for 9M FY2021.

High working capital intensity – The working capital intensity remained high at 63% in 9M FY2021 owing to elevated inventory levels. The company's raw material inventory is higher from November to January, which is the season for procurement of rice bran.

Intense competition and threat of substitutes – The edible oil industry is characterised by stiff competition with prices linked to international edible oil prices. Additionally, the margins remain exposed to competition and threat from substitutes.

Liquidity position: Adequate

SPAEP's liquidity position is **adequate** with cushion in working capital limits. The average working capital limit utilisation remained moderate at 86% during the past 15 months ending in February 2021. Moreover, the absence of any major capital expenditure plans in the near term is likely support its liquidity position to an extent.

Rating sensitivities

Positive factors – ICRA could upgrade SPAEP's rating if the company shows sustained growth in revenues with improved profit margins, leading to an improvement in the overall credit metrics. Specific credit metrics that could lead to a rating upgrade rating include interest coverage of more than 2.8 times.

Negative factors – Negative pressure on SPAEP's rating could arise if there is any sustained decrease in revenues with profitability impacting its financial profile. A weakening in TOL/TNW to above 3.0 times could also exert negative pressure on the company's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SPAEP and its wholly-owned subsidiary, GMCPL, given the same management, operational and financial linkages.

About the company

SPAEP was incorporated in 1990 and is involved in extraction and refining of rice bran oil. The extraction and refining plant is located in Nellore district, Andhra Pradesh. The company has installed capacities of 60,000 MT/annum and 15,000 MT/annum

for solvent extraction and oil refinery, respectively. GMCPL, a wholly-owned subsidiary of SPAEPL was incorporated in April 2016. It is headquartered in Singapore and is involved in the export of barites, supply of lime stones, gypsum and trading of minerals and oils.

Key financial indicators

	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	412.55	541.46	42.09
PAT (Rs. crore)	2.46	2.24	1.32
OPBDIT/OI (%)	1.43%	1.04%	7.15%
RoCE (%)	16.92%	14.15%	8.62%
Total Outside Liabilities/Tangible Net Worth (times)	3.01	2.50	2.16
Total Debt/OPBDIT (times)	3.33	4.02	6.64
Interest Coverage (times)	2.52	2.48	2.31
DSCR (times)	1.61	2.24	2.37

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year); *provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	FY2020	FY2020	FY2018
					Apr 07, 2021	Mar 13, 2020	May 23, 2019	Dec 06, 2018
1	Cash credit	Long-term	16.00	-	[ICRA]BB (Stable)	[ICRA]BB- (Positive)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)
2	Term loan	Long-term	1.60	1.60	[ICRA]BB (Stable)	[ICRA]BB- (Positive)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)
3	Non-Fund based	Long-term	7.40		[ICRA]BB (Stable)	[ICRA]BB- (Positive)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)
3	Unallocated	Long-term	0.00	-	-	[ICRA]BB- (Positive)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)

Complexity level of the rated instrument

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	16.00	[ICRA]BB (Stable)
NA	Term loan	May 2020	NA	September 2025	1.60	[ICRA]BB (Stable)
NA	Non-Fund based	NA	NA	NA	7.40	[ICRA]BB (Stable)

Source: SPAEPL

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Sri Priyanka Agro Enterprises Private Limited	100.00%	Full Consolidation
Geo Min Commodities Pte. Ltd.	100.00%	Full Consolidation

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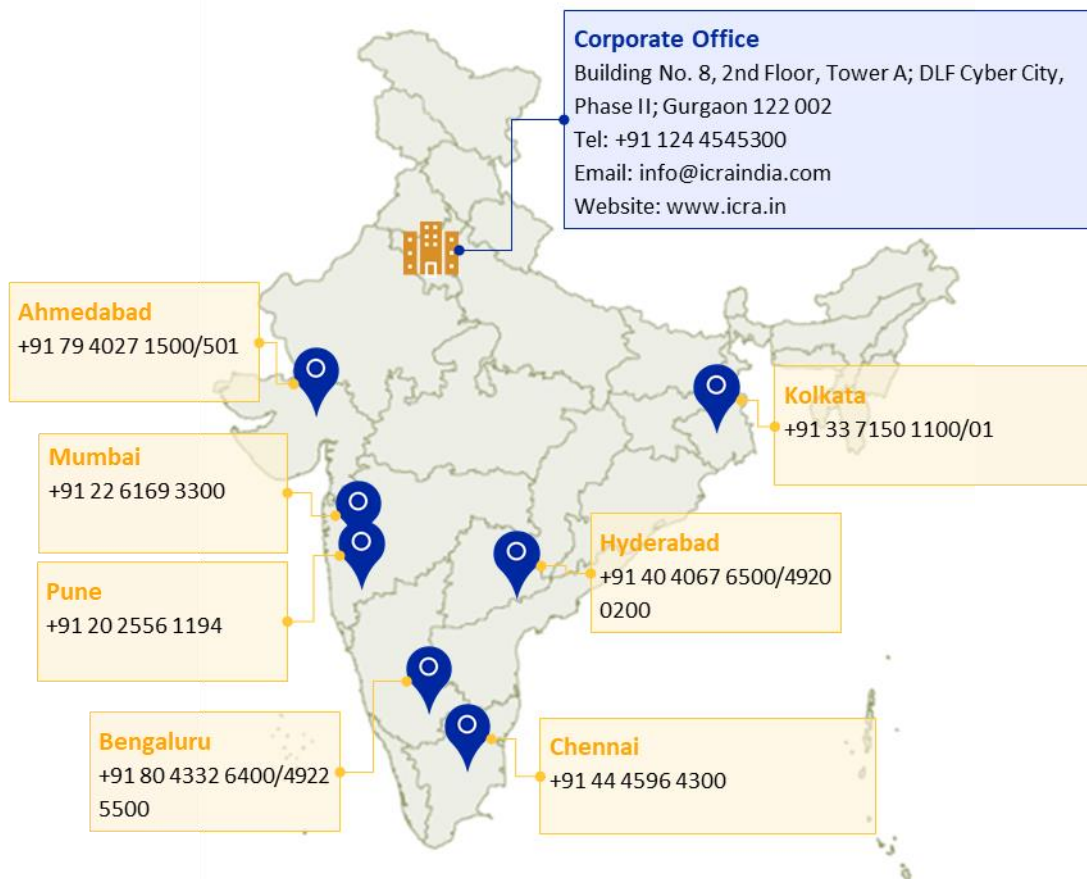


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