January 06, 2022

Shrinivasa Cattle Feeds Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	27.00	27.00	[ICRA]BB(Stable); reaffirmed
Total	**27.00**	**27.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to favourably factor in the long presence of Shrinivasa Cattle Feeds Private Limited (SCFPL) in the solvent extraction industry. The rating notes the location-specific benefits derived by the company's solvent extraction unit owing to its proximity to the raw material sources and end customers. The rating also draws comfort from the steady growth in SCFPL's operating income (OI) during the past two fiscals along with its comfortable capital structure and satisfactory coverage metrics mainly due to controlled debt levels.

The rating, however, remains constrained by SCFPL's low profitability due to limited value addition and working capital intensive nature of operations owing to elongated debtors. The rating factors in its exposure to intense competition in the edible oils industry, constraining the margin. Additionally, the company's revenues and profitability remain vulnerable to price fluctuations of soya bean and its substitutes, along with regulatory changes such as duties on import of soya oil.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SCFPL will be able to maintain a healthy capital structure and moderate coverage indicators with low debt levels and moderate profitability.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in solvent extraction industry – SCFPL's promoters have close to 40 years of experience in the solvent extraction industry. The company's daily operations are managed by Mr. Sunil Medewar and Mr. Rohan Chakkarwar. The firm has been involved with extraction of soybean oil and DOC for nearly three decades, which helped in maintaining healthy relationship with suppliers and customers over the years. This led to ease in raw material procurement and repititive business with existing clientele.

Location-specific advantage owing to proximity to soya bean growing region and customers – With a plant in Nanded, Maharashtra, the company enjoys proximity to the key soya bean producing regions of Marathwada, North Karnataka and Telangana in the vicinity. It sells soya bean oil to edible oil manufacturers in Maharashtra, Karnataka and Telangana, among others, while the de-oiled cake (DOC) is sold to poultry feed manufactures in the locality.

Comfortable capital structure and debt protection metrics along with improvement in operating income in FY2021 – The company's operating income improved in FY2021 owing to a healthy improvement in realisations of soybean oil. The improvement in realisations continued in H1 FY2022, which led to a healthy revenue despite a decline in volume sales. Despite healthy revenue growth over the past three years, the company's scale of operations remains moderate. The company's debt profile has been historically dominated by working capital loans followed by minimal unsecured loans. Given the controlled debt levels, the capital structure remained comfortable with a gearing of 0.4 times as on March 31, 2021 compared to 0.8 times as on March 31, 2020. Low debt levels led to comfortable coverage indicators in FY2021. The interest coverage, TD/OPBIDTA and NCA/Total Debt remained at 11.1 times, 1.8 times and 38.4%, respectively, in FY2021 compared to 3.6 times, 3.3 times and 19.2%, respectively, in FY2020. Going forward, SCFPL will be able to maintain a healthy capital structure and moderate coverage indicators with low debt levels and moderate profitability.

Credit challenges

Inherently low profitability metrics due to low value addition in edible oil extraction business – SCFPL's operating profit margin (OPM) remains low, given the limited value-added nature of its operations. The same primarily remains a function of the price spread between soya derivatives (soya refined oil and soya DOC) and input (soya bean seeds). The company reported an OPM of 3.4% and a net profit margin (NPM) of 2.2% in FY2021, in line with an OPM of 3.4% and NPM of 2.0% in FY2020. The realisations improved in H1 FY2022, however, raw material costs increased substantially. Hence, the profit margins in FY2022 are expected to remain in similar line with FY2021.

Moderate working capital intensity owing to stretched debtor position – The company's debtors days improved to 42 as on March 31, 2021 from 53 as on March 31, 2020 and inventory days improved to 24 as on March, 31 2021 compared to 42 as on March 31, 2020 as the company maintained lower inventory due to an increase in soybean costs, which resulted in an overall improvement in the working capital intensity.

High susceptibility to availability and prices of soya bean which is dependent on monsoons – The company remains vulnerable to the availability and price movements of soya bean seeds, which is an agro commodity. Further, soya bean production in its catchment area remains a function of monsoons, thus impacting availability.

Threat from imports and cheaper substitutes; vulnerable to Government policy changes related to import duties – Regulatory changes like import duty structure and minimum support price amendments have a bearing on the profitability of solvent extraction units. Further, price movements as well as demand of other oilseed products influence the company's revenue growth and profitability.

Exposure to stiff competition in edible oil industry – The edible oil industry in India is characterised by intense competition and fragmentation with many units operating in the field, given the low entry barriers in the business. The same limits the pricing power and, hence its operating profitability.

Liquidity position: Adequate

The company's liquidity remains **adequate** as evident from the buffer in undrawn working capital limits of ~Rs.8-10 crore, and free cash and bank balances of around Rs.14.0 crore as on October 31, 2021 as against low repayment obligations of around Rs.0.7 crore and capex requirement of around Rs.0.3-0.5 crore per annum.

Rating sensitivities

Positive factors – ICRA could upgrade SCFPL's rating if there is a sustained improvement in profitability and scale coupled with its net worth position.

Negative factors – Pressure on the company's rating could arise from any notable decline in its profitability, or if any deterioration in the working capital cycle impacts its liquidity and the overall financial profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SCFPL

About the company

SCFPL was incorporated by Mr. Sriram Medewar and Mr. Deelip Chakkarwar in 1993. It is involved in the extraction of edible and non-edible oils as well as de-oiled cakes. The company has an extraction unit with a production capacity of 200 metric tonnes per day (MTPD) and a refining unit with a 50-MTPD capacity at Nanded. It is currently managed by the promoters' sons, Mr. Sunil Medewar and Mr. Rohan Chakkarwar.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	206.4	220.6
PAT (Rs. crore)	4.2	5.0
OPBDIT/OI (%)	3.4%	3.4%
PAT/OI (%)	2.0%	2.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.6
Total Debt/OPBDIT (times)	3.3	1.8
Interest Coverage (times)	3.6	11.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: SCFPL data, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	FY2021	FY2020		FY2019
					Jan 06, 2022	Feb 25, 2021	Jan 21, 2020	Jul 15, 2019	Sep 04, 2018
1	Cash credit	Long-term	27.00	NA	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB-(Stable) ISSUER NOT COOPERATING	[ICRA]BB-(Stable); removed from ISSUER NOT COOPERATING category

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple

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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	27.00	[ICRA]BB(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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