

Gopal Oil Industries

February 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund- based- Working Capital Facilities	9.90	9.90	[ICRA]BB- (Stable); Reaffirmed
Total	9.90	9.90	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB- (pronounced ICRA double B minus) for the Rs. 9.90-crore fund-based limits of Gopal Oil Industries (GOI). The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation takes into consideration the decline in the operating margins Rs 2.99% in FY2017 as against 3.20% in FY2016 of the firm owing to increase in the raw material prices as well as the increase in the proportion of the trading activities during the year. Also, the sales quantity for both its major products declined by 8% during FY2017, though the operating income also increased by 8% during FY2017 supported by the healthy increase in the sales realisation for both the products (realisation of cottonseed oil grew by 13% from Rs 57/kg in FY2016 to Rs 64/kg in FY2017 and realisation of cottonseed oilcake grew by 46% from Rs 20/kg in FY2016 to Rs 30/kg in FY2017). Furthermore, the rating continues to positively factor in the promoter's long experience in the cottonseed oil business and the favourable location of the plant in a cotton growing belt, which helps in ease of procurement.

The rating continues to be constrained on account of the business risks associated with the edible oils industry, including high competitive intensity and the fragmentation therein; the vulnerability of profitability to volatility in global edible oil prices and the agro-climatic risks associated with the availability of the raw materials. ICRA also takes into account the firm's adverse capital structure and moderate coverage indicators as reflected by gearing of 4.49 times as on March 31, 2017. The rating is also constrained by the weak financial profile and the risks associated with the proprietorship nature, including the risk of capital withdrawal, etc

Going forward, the firm's ability to improve its operating margins and optimally manage its working capital requirements will remain the key rating sensitivities.

Outlook: Stable

ICRA believes GOI will continue to benefit from the extensive experience of its proprietor. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthening the financial risk profile. The outlook may be revised to 'Negative' if cash accruals is lower than expected, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in the industry– The presence of the promoters in the edible oil industry for more two decades supports the firm’s bargaining power over its suppliers and its overall distribution network.

Favourably located in the raw material growing belt- GOI’s plant is located in Pandhurna which is the cottonseed growing belt of Madhya Pradesh and hence ensures ease in the availability of raw material.

Credit challenges

Fragmented industry characterized by intense competition from large number of players- With the presence of large number of established as well as unorganised players the company faces high competition from cheaper varieties of imported edible oils. Along with this, the vulnerability of demand and profitability to movements in global edible oil prices and changes in duty structure which can impact competitiveness of various oils

Vulnerability of profitability to any adverse fluctuation in input costs - The key raw material for the firm is cottonseed seed with the demand for the industry being seasonal in nature. Hence, the firm remains exposed to any supply disruption and has limited ability to pass on the price increases.

Adverse capital structure and moderate coverage indicators- Owing to the low value-added nature of operations, the profitability remains moderate. This combined with the high short-term borrowings has resulted in adverse capital structure with gearing at 4.49 times as on March 31, 2017. Therefore, the debt coverage indicators have also remained moderate.

High working capital intensity resulting from high inventory levels which impacts liquidity - The firm has high working capital intensity resulting from high inventory days which impacts the firm’s liquidity as reflected by almost full utilisation of the working capital limits.

Risks associated with the proprietorship nature of the firm - The firm also faces the risks associated with its status as a proprietorship firm including risk of capital withdrawal, etc.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Edible Oil \(Solvent Extraction\) Rating Methodology](#)

About the company

Gopal Oil Industries is a proprietorship concern and was incorporated in 1990. The firm started operations with two oil expellers at Pandhurna in the state of Madhya Pradesh. The manufacturing operations were expanded over the years and the firm, as on date, has 18 oil expellers/crushers currently, a caustic wash section and a groundnut shelling plant. The firm got its cotton seed cake brand “Surbhi Shri” registered in 2008. The product mix of the firm constitutes cotton seed oil and cotton seed cake. The firm also trades in commodities such as soyabean seed, groundnut cottonseed etc.

Key financial indicators

	FY 2016	FY 2017
Operating Income (Rs. crore)	44.65	48.24
PAT (Rs. crore)	0.19	0.11
OPBDIT/ OI (%)	3.20%	2.99%
RoCE (%)	9.45%	8.63%
Total Debt/ TNW (times)	4.34	4.49
Total Debt/ OPBDIT (times)	8.59	9.00
Interest coverage (times)	1.23	1.18
NWC/ OI (%)	30%	31%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2016
					January 2017	December 2016	September 2015
1 Cash Credit	Long - Term	9.90	-	February 2018 [ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); rating suspended	[ICRA]BB-(Stable)
2 Unallocated	Long/ Short - Term	-	-	-	-	[ICRA]BB-(Stable)/A4; rating suspended	[ICRA]BB-(Stable)/A4

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 www.icra.in

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	Fund- based-Cash Credit	NA	NA	NA	9.90	[ICRA]BB- (Stable)

Source: Gopal Oil Industries

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