December 29, 2022 (Revised)

Poona Dal and Oil Industries Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based – CC	19.00	0.00	[ICRA]BBB+ (Stable); reaffirmed and withdrawn
Short-term – Non-fund based	89.00	0.00	[ICRA]A2; reaffirmed and withdrawn
Total	**108.00**	**0.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of the Poona Dal Group (comprising Poona Dal and Besan Mills Private Limited [PDBM] and its sister concern, Poona Dal and Oil Industries Limited [PDOIL]), while arriving at the ratings as the companies have significant business and management synergies.

ICRA has reaffirmed and withdrawn the rating assigned to the bank facilities of Poona Dal and Oil Industries Limited at the request of the company and based on the No Objection Certificate received from the banker, and in accordance with ICRA's policy on withdrawal of credit ratings. The reaffirmed ratings continue to factor in the Group's established presence for over three decades in the agro-processing, food grains and edible oil industries. ICRA notes the Group's experienced management and its sizeable scale of operations in a fragmented and unorganised sector. The Group has a strong distribution network, centralised procurement system and established brands in the local market. The products have favourable demand prospects as foodgrains are essential constituents of the staple Indian diet. The Group's financial profile remains stable with comfortable capital structure and debt coverage indicators, along with a strong liquidity position. ICRA believes that sizeable surplus maintained by the Group would continue to support its comfortable debt coverage metrics and strong liquidity position. Going forward, further addition in the share of value-added products, an improvement in the operating performance and margins, along with adequate management of the working capital will remain key rating sensitivities.

The ratings remain constrained by the Group's weak operating performance, characterised by thin operating and profit margins in FY2022. Given the limited value addition in the business and intense competition in the food segment, the profitability of the Group is likely to remain range bound, though the Group's revenue is likely to witness a steady growth. The operating income of the Group improved by 40% on a YoY basis in FY2022 due to an increase in the trading volumes of chickpeas or Bengal gram (*chana*). The Group's trading operations were dependent on imports owing to the price arbitrage opportunity against the domestic procurement. The Group is exposed to the Government policy actions, which may impact its business and profitability, as witnessed in the past in relation to imposition of import duty on chickpeas and GST on branded products. Further, the Group is exposed to challenges related to logistics, so any adversity in the same could impact its business and profitability. ICRA also notes the company's susceptibility to agro-climatic conditions, the commodity price cycle and currency movements.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from its established presence in the agro industry, resulting in a healthy relationship with the customers and suppliers. Going forward, the Group is likely to maintain its comfortable liquidity and healthy debt coverage indicators.

Key rating drivers and their description

Credit strengths

Group's established presence with experienced management – PDBM is the flagship company of the Poona Dal Group, which processes and trades in pulses and other foodgrains. Its other Group entity, PDOIL, is involved in processing of edible oils, apart from trading in pulses. The Group has an established presence of more than three decades in the agro and food grains industry with an experienced management. It is one of the large traders and processors of pulses in the region and is functioning in a highly fragmented and unorganised market.

Comfortable debt coverage metrics and healthy liquidity – The Group's capital structure remains comfortable with adequate accruals, low debt levels of Rs. 7.6 crore and nil gearing as on March 31, 2022. The Group's interest coverage and TD/OPBITDA also remained comfortable at 3.6 times and 1.4 times, respectively in FY2022. The Group primarily utilises non-fund-based facilities for procuring pulses and oils, which result in limited utilisation of its working capital limits. The overall utilisation of the limit remains low on account of sizeable cash and bank balances maintained by the Group, which also keeps its interest cost at a low level.

Stable demand from staple foodgrains market; strong distribution reach and established local brand – The Group's market is extremely fragmented. However, the demand is stable as its products form staple constituents of daily diet. The Group has developed a strong marketing and distribution network in its catchment area, facilitating Group companies in its sales. The raw material procurement is centralised for both domestic sourcing and imports (pulses and edible oil). As the companies cater to retailers, dealers and wholesale agents, the customer concentration remains low with no customer generating more than 5% of the overall sales in each company.

Credit challenges

Government policy and agro-climatic conditions adversely impact operating performance – The Group deals in food grains that are essential constituents of the Indian diet and are regulated by the Government on a continuous basis. The products come under the Essential Commodities Act, wherein the parameters, such as stocking and price levels, are tightly controlled. The company's trading operations are dependent on imports owing to price arbitrage opportunity against domestic procurement. The Group is also exposed to challenges related to logistics, any adversity in the same could impact its business and profitability.

Low profit margins inherent to the industry – The Group operates in a commoditised and hence, extremely elastic market, making it a price taker. The low value-added nature of its business, combined with the fragmented and unorganised market, results in low profit margins. Post the implementation of 5% GST on branded products, the Group resorted to selling unbranded chickpea flour at lower realisations to traders and local retailers, thus impacting its revenues and margins. The Group's profitability declined in FY2022 and remains thin with an operating margin of 1.0% compared to 1.6% in FY2021. As per ICRA's estimates, while the revenue of the Group is likely to increase in future, its profitability could witness a correction on account of higher raw material prices, though it would remain range bound.

Exposure to commodity price cycles and currency movements – The Group's operations are exposed to commodity price cycles and currency movements. However, the management's extensive experience and 100% hedging practice mitigate the risk to some extent.

Liquidity position: Strong

Poona Dal Group's liquidity is **strong**, with minimal long-term debt repayment obligations, unutilised credit limits and healthy cash and cash equivalents of ~Rs. 116.12 crore as on March 31, 2022. The Group utilised 9% of the credit limit on an average for the 12-month period ended in October 2022. The Group's cash flow position remains impacted by lower cash accruals and changes in the working capital intensity. The Group does not have any major capex plan in the near term. ICRA believes any stretch in the working capital cycle of the company and a deterioration in its liquidity would adversely impact the company's financial risk profile.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Not applicable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial Consolidation and Rating Approach Policy on Withdrawal of Credit Ratings
Parent/Group Support	PDOIL draws comfort from being part of the Group having operational linkages and common management.
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the two Group entities (as mentioned in Annexure-2), given the operational linkages and common management.

About the company

PDOIL was incorporated as the public limited company, Suryaoday Agro Industries Limited, on January 1, 1993. It came out with a public issue in February 1994 and was taken over by the Pune-based Poona Dal Group in 1995. In 1997, the company was renamed to PDOIL. The company trades in and processes pulses and edible oils (primarily soya bean, palm and sunflower). It has two facilities at Shikrapur and Kurkumbh, near Pune in Maharashtra. The company, along with PDBM, has a widespread marketing network across Maharashtra, Karnataka and Goa.

In FY2022, the Group reported a net profit of Rs. 4.9 crore on an operating income (OI) of Rs. 528.2 crore (consolidated) compared to a net profit of Rs. 4.0 crore on an OI of Rs. 377.9 crore in the previous year.

Key financial indicators

Poona Dal and Oil Industries Limited	Consolidated (Group)		Standalone	
	FY2021	FY2022	FY2021	FY2022
Operating Income (Rs. crore)	377.9	528.2	162.4	242.5
PAT (Rs. crore)	4.0	4.9	1.1	1.4
OPBDIT/OI (%)	1.6%	1.0%	1.2%	0.6%
PAT/OI (%)	1.1%	0.9%	0.7%	0.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.3	0.0	0.1
Total Debt/OPBDITA (times)	2.8	1.4	0.0	0.0
Interest Coverage (times)	2.2	3.6	2.7	7.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 29 2022	Sep 30 2021	Apr 24 2020	Oct 04 2019
1	**Fund Based/ CC**	Long Term	19.00	-	**[ICRA]BBB+ (Stable); withdrawn**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]A- (Negative)**
2	**Non-fund based**	Short Term	89.00	-	**[ICRA]A2; withdrawn**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2+**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based/ CC	Simple
Short-term – Non-fund based	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: 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	**Long Term – Fund Based/ CC**	NA	9.25%	NA	19.00	[ICRA]BBB+ (Stable); withdrawn
NA	**Short-term – Non-fund based**	NA	NA	NA	89.00	[ICRA]A2); withdrawn

Source: *Company; *Proposed bank limits*

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

Instrument Name	Ownership	Current Rating and Outlook
Poona Dal and Besan Mills Private Limited	100.00%	Full Consolidation
Poona Dal and Oil Industries Limited	100.00%	Full Consolidation

Corrigendum

Rationale dated December 29, 2022, has been corrected with revision as detailed below:

The rationale didn't include the following with respect to the withdrawal policy:

'ICRA has reaffirmed and withdrawn the rating assigned to the bank facilities of Poona Dal and Oil Industries Limited at the request of the company and based on the No Objection Certificate received from the banker, and in accordance with ICRA's policy on withdrawal of credit ratings.'

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Manish Pathak
+91 124 4545397
manishp@icraindia.com

Aditya Lade
+91 98334 15302
aditya.lade@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road; New Delhi-110001
Tel: +91 11 23357940-50

Branches