December 21, 2017

# Poona Dal and Oil Industries Limited

**Summary of rated instruments**

| Instrument* | Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| | | |
| Long term – Fund-based – Cash Credit | 19.00 | [ICRA]A-(Stable); Reaffirmed |
| Short-term – Non fund-based | 201.10 | [ICRA]A2+; Reaffirmed |
| **Total** | **220.10** | |

*Instrument details are provided in Annexure-1

**Rating action**

ICRA has reaffirmed the long term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 19.00 crore cash credit facility of Poona Dal and Oil Industries Limited (PDOIL/the company), ICRA has also reaffirmed the short term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 201.10 crore non fund based bank facilities of PDOIL. The outlook on the long term rating is stable.

**Rationale**

ICRA has taken a consolidated view of the Poona Dal Group (comprising PDOIL and sister concern Poona Dal and Besan Mills Private Limited or PDOIL), while arriving at the ratings, as the group companies derive significant business synergies from each other. The rating reaffirmation continues to favourably factor in the long established presence of the group for more than three decades in the agro and food grains industry. ICRA notes the experienced management and sizeable scale of operations of the group along with favourable demand prospects of food grains, which form an essential constituent of the Indian diet. The group has strong distribution, centralised procurement network and established brands in the local market. Adequate and timely year round import accessibility of pulses provides the group a competitive edge over smaller unorganised players. The financial profile of the group continues to remain favourable with strong capital structure and coverage indicators and comfortable liquidity position.

The ratings are, however, constrained by the low value addition involved in the business, which combined with a fragmented and unorganised market results in thin profit margins. The operating margins of the company improved significantly in FY2017 owing to one time inventory gain though the margins are expected to come down to their historical levels from FY2018 onwards. The profitability of the group remain exposed to commodity price cycles and currency movement as the group has sizeable imports, although the management has been able to manage these risks adequately in the past given long term experience in the industry and judicious use of hedging practices. ICRA also takes note of susceptibility to government regulations and agro-climatic conditions in the country. Going forward, further improvement in share of value-added product portfolio and adequate management of working capital will remain key rating sensitivities.

**Outlook: Stable**

ICRA believes that PDOIL will continue to benefit from Group’s established market position in the agro and food grains industry. The outlook may be revised to ‘Positive’ if there is a substantial improvement in revenue growth along with improvement in revenue mix with increase in revenues from value added products which will lead to improvement in the profitability indicators. The outlook may be revised to ‘Negative’ with significant drop in the turnover along with deterioration in profitability and deterioration in working capital profile which will have impact on the capital structure and coverage indicators of the company.

## Key rating drivers

### Credit strengths

- **Long established presence of the group with experienced management** – PDOIL is a part of Poona Dal Group and is engaged in the trading and processing of pulses and edible oils, primarily sunflower, soyabean and palm. The group has a presence of more than three decades in the agro and food grains industry with experienced management and is among the largest traders of pulses in the domestic market.
- **Strong capitalization, coverage indicators and liquidity position** – The capital structure of the company continues to remain strong with zero debt levels as on March 2017. The company primarily utilises non-fund based facilities for procurement of pulses and crude oil, which results in lower working capital borrowings and overall low debt levels. In line with low debt levels and resulting low interest expenses, the interest coverage and other debt protection metrics also remain strong in FY2017.
- **Strong distribution reach, centralised procurement network and locally well-known brands –** Over time, the group has built strong marketing and distribution network in its catchment area and all the companies in the group leverage this existing network for their sales. For the group, procurement operations of the raw materials are largely centralized. The group sources its raw material both domestically and through imports (pulses and edible oil). Since the companies cater to retailers, dealers and wholesale agents, the customer concentration for these companies is quite low with no customer contributing to more than 5% of overall sales in each company.
- **Stable market with food grains forming an essential constituent of the Indian diet** – The market for the company is extremely fragmented, the demand is stable with all products forming essential constituents of daily diet of the consumers.

### Credit weaknesses

- **Thin profitability owing to limited value addition in the business –** The group operates in a commoditized and hence extremely elastic market. Therefore, they are essentially price takers. The company is into low value addition nature of business, which combined with a fragmented and unorganised market results in thin profit margins. The operating margins of the company improved significantly from 1.21% in FY2016 to 4.72% in FY2017 owing to one time inventory gain though the same are expected to come down to their historical levels from FY2018 onwards.
- **Exposed to commodity price cycles and currency movement –** The operations of the group is exposed to the commodity price cycles and currency movement with sizeable imports. However, long term experience of the management and hedging practices mitigate the risk to some extent.
- **Exposed to Government policy changes and agro-climatic conditions –** Since the companies in the group deal in food grains that are essential constituent of the Indian diet, they are regulated by the government on a continuous basis. All the goods come under the essential commodities act and parameters such as stocking and price levels are tightly controlled.

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

**Links to applicable criteria:**
[Corporate Credit Rating Methodology]

**About the company:**
Poona Dal and Oil Industries Limited (PDOIL) was incorporated as a Public Limited Company as 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 PDBM group in 1995. In 1997, the company changed its name to Poona Dal and Oil Industries Limited. PDOIL is in the business of trading and processing of pulses and edible oils, primarily sunflower, soyabean and palm. It has two facilities located at Shikrapur and Kurkumbh, near Pune in Maharashtra. The company along with other sister companies in the group has a widespread marketing network across Maharashtra, Karnataka and Goa.

**Key financial indicators (Audited)**

| | FY2016 | FY2017 |
|---|---|---|
| Operating Income (Rs. crore) | 250.68 | 294.58 |
| PAT (Rs. crore) | 1.26 | 9.13 |
| OPBDIT/ OI (%) | 1.21% | 4.72% |
| RoCE (%) | 11.09% | 50.92% |
| | | |
| Total Debt/ TNW (times) | 0.00 | 0.00 |
| Total Debt/ OPBDIT (times) | 0.00 | 0.00 |
| Interest Coverage (times) | 2.21 | 16.59 |
| NWC/ OI (%) | 1.33% | -13.74% |

*OI: Operating Income; 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);*
*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

| S. No. | Instrument | Current Rating (FY2018) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2014 |
| | | | | | December-2017 | September-2016 | June-2015 | Febrary-2014 |
| 1 | Cash Credit | Long term | 19.00 | - | [ICRA] A- (Stable) | [ICRA] A- (Stable) | [ICRA] BBB+ (Stable) | [ICRA] BBB+ (Stable) |
| 2 | Non fund-based – Letter of Credit | Short term | 201.10 | - | [ICRA] A2+ | [ICRA] A2+ | [ICRA] A2 | [ICRA] A2 |

**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**

| **Instrument** | **Date of Issuance / Sanction** | **Coupon Rate** | **Maturity Date** | **Amount Rated (Rs. crore)** | **Current Rating and Outlook** |
|---|---|---|---|---|---|
| Cash Credit | - | - | - | 12.00 | [ICRA] A- (Stable) |
| Cash Credit | - | - | - | 7.00 | [ICRA] A- (Stable) |
| Letter of Credit | - | - | - | 111.00 | [ICRA] A2+ |
| Letter of Credit | - | - | - | 90.10 | [ICRA] A2+ |

Source: The company

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