Poona Dal and Oil Industries Limited

February 15, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - fund-based/CC	19.00	19.00	[ICRA]A-(Stable); reaffirmed
Short-term - non-fund based	201.10	201.10	[ICRA]A2+; reaffirmed
Total	**220.10**	**220.10**	

**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 or PDBM and its sister concern, Poona Dal and Oil Industries Limited or PDOIL) while arriving at the ratings, as the companies derive significant business and management synergies from each other. The reaffirmation favourably factors in the Group's established presence for over three decades in the agro and food grains industry. ICRA notes the experienced management and the sizeable scale of operations in a fragmented and unorganised industry. The Group has strong distribution, centralised procurement network and established brands in the local market. The products have favourable demand prospects as food grains are essential constituents of the Indian diet. The Group's financial profile remains healthy with strong capital structure, comfortable liquidity position and adequate coverage indicators.

The ratings are, however, constrained by the low value addition inherent to the business, which combined with the operations in a fragmented market results in thin profit margins. The Group's profitability is exposed to the volatility in commodity price cycles and currency movements as it had sizeable imports till March 2018. The imports were adversely impacted following the Government's policy to ban the import of peas or *vatana* (Pisum sativum) and the levying of high import duty on *chana* (60% import duty as on March 01, 2018 from nil in November 2017). The trading business heavily depended on imports, declined significantly following the ban; although, the Group continues to procure domestically for its flour mill business. The revenues in FY2018 declined by 25.8% while the operating profitability stood at 0.9% (7.9% in FY2017), impacted by the reversal of a raw material price hike witnessed in FY2017. ICRA expects the Group to report increased profitability in FY2019 with the stabilisation in raw material prices. ICRA also notes the susceptibility to agro-climatic conditions in the country. Going forward, further improvement in the share of value-added products and adequate management of the working capital will remain the key rating sensitivities.

Outlook: Stable

ICRA expects PDOIL to continue to benefit from the Group's established market position in the agro and food grains industry, which is an essential constituent of the Indian diet. The outlook may be revised to Positive if there is substantial growth in revenues (especially from the value-added products), which will improve the profitability indicators. The outlook may be revised to Negative with significant deterioration in the profitability indicators and the working capital profile, which will impact the Group's liquidity and capital structure.

Key rating drivers

Credit strengths

Group's established presence with experienced management - PDOIL, a part of the Poona Dal Group, trades in and processes pulses and edible oils (primarily soybean, palm and sunflower). The Group has a presence of more than three decades in the agro and food grains industry with an experienced management. It is among the larger pulses traders and processors in the region functioning in a highly fragmented and unorganised market.

Strong capitalisation and adequate coverage indicators - The Group's capital structure remains strong with low debt levels, resulting in a low gearing of 0.1x as of March 2018. The Group primarily utilises non-fund based facilities for the procurement of pulses, resulting in lower working capital borrowings and overall low utilisation levels. The coverage indicators were impacted in FY2018 due to lower profitability with Total Debt/OPBDITA of 1.9x (0.0x in FY2017) and interest coverage of 2.0x (18.0x in FY2017) albeit adequate and are expected to improve, going forward.

Strong distribution reach, centralised procurement network and well-known local brands - The Group has built a strong marketing and distribution network in its catchment area, facilitating the Group companies in their sales. For the Group, raw material procurement is primarily centralised for both domestic sourcing and imports (pulses and edible oil). Since the companies cater to retailers, dealers and wholesale agents, the customer concentration remains low with no customer contributing to more than 5% of the overall sales in each company.

Stable market with food grains essential constituent of the Indian diet - The Group's market is extremely fragmented; however, the demand is stable with all the products forming essential constituents of the consumers' daily diet.

Credit challenges

Government policy and agro-climatic conditions impact trading volumes and realisations - Since the Group companies deal in food grains that are essential constituents of the Indian diet, they are regulated by the Government on a continuous basis. All the goods come under the Essential Commodities Act, wherein the parameters, such as stocking and price levels, are tightly controlled. With surplus domestic production of pulses in FY2018, the Government levied a high import duty on *chana* (60%) that curbed imports, reducing the trading volumes. Further, the prices remained volatile leading to low realisations for the Group.

Thin profitability inherent to nature of industry - The Group operates in a commoditised and hence, extremely elastic market, making it a price taker. Its low value addition nature of business, combined with the fragmented and unorganised market, results in thin profit margins. The operating margins declined significantly in FY2018 led by inventory losses and the impact of Goods and Services Tax (GST) on branded products; however, the same are expected to improve with stabilisation in the market scenario from FY2019 onwards.

Exposure to currency movements - The Group's operations are exposed to commodity price cycles and currency movements with its sizeable imports. However, the management's extensive experience and hedging practices mitigate the risk to some extent. The exposure to currency movements has reduced significantly, post the revised import regulations in March 2018.

Liquidity position

The Group's cash flow position was impacted by lower cash accruals and changes in the working capital intensity. However, it does not have any capex plans in the near term. Further, with low debt obligations and improved estimated accruals, the cash flow position is expected to improve, going forward. The Group's liquidity position is supported by its healthy cash balance of Rs. 101.2 crore as of March 2018.

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 consolidated the financials of PDBM and PDOIL (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

PDOIL was incorporated as a public limited company, named 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 changed its name to PDOIL. The company trades in and processes pulses and edible oils (primarily soybean, palm and sunflower). It has two facilities located at Shikrapur and Kurkumbh, near Pune in Maharashtra. The company, along with PDBM, has a widespread marketing network across Maharashtra, Karnataka and Goa.

In FY2018, the Poona Dal Group generated OI and, OPBITDA and PAT margins of Rs. 697.6 crore, Rs. 6.0 crore and Rs. 5.2 crore respectively, on a consolidated basis.

Key financial indicators* (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	294.6	189.0
PAT (Rs. crore)	9.1	2.2
OPBDIT/OI (%)	4.7%	0.6%
RoCE (%)	50.9%	10.0%
Total Debt/TNW (times)	-	-
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	16.6	2.8

**Standalone Financials of PDOIL*
Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Feb 2019	Date & Rating in FY2018 Dec 17	Date & Rating in FY2017 Sept 16	Date & Rating in FY2016 Jun 15
1	Fund-based	Long term	19.00	-	[ICRA]A- (Stable); reaffirmed	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA] BBB+ (Stable)
2	Non-fund based	Short term	201.10	-	[ICRA]A2+; reaffirmed	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/CC	NA	NA	NA	19.00	[ICRA]A-(Stable)
NA	Non-fund based	NA	NA	NA	201.10	[ICRA]A2+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Poona Dal and Besan Mills Private Limited	100%	Full Consolidation

Source: Company, ICRA research

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