

October 04, 2019

Poona Dal and Oil Industries Limited: Rating reaffirmed; Outlook revised to Negative from Stable

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-; reaffirmed; outlook revised to negative from stable
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 rating, as the companies derive significant business and management synergies from each other.

The negative outlook factors in the continued weakening in operating performance and reduction in scale and size, coupled with a decline in profitability for the Group. The operating income of the Group declined by 24.5% YoY in FY2019 (provisional and unaudited statements). The company's trading operations were dependent on imports owing to price arbitrage opportunity versus domestic procurement, however, since March 01, 2018, the Government of India (GoI) levied a high import duty of 60% on *chana* or Bengal gram (nil in November 2017) which led to reduction in trading turnover. The high import duty followed surplus domestic production of *chana* during 2018-2019. The sale of branded products was also adversely impacted by the levy of GST on the same compared to none for unbranded packaged *besan* or gram flour. Reduced trading turnover coupled with lower sale of high margin branded products adversely impacted the margins as well during the last two years. ICRA also notes the company's susceptibility to agro-climatic conditions, the commodity price cycle and currency movements.

ICRA favourably factors in the Group's established presence for over three decades in the agro and food grains industry. It notes the experienced management and the sizeable scale of operations in a fragmented and unorganised industry. The Group has a 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 adequate capital structure and coverage indicators, as well as a strong liquidity position. Going forward, further improvement in the share of value-added products, improvement in operating performance and margins and adequate management of the working capital will remain the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Group's established presence with experienced management; large trading and processing company for pulses - 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.

Healthy capitalisation and coverage indicators - The Group's capital structure remains healthy with low debt levels of Rs. 3.2 crore on March 31, 2019 and adequate accruals. The Group primarily utilises non-fund based facilities for the procurement of pulses, resulting in lower working capital borrowings and overall low fund based utilisation levels.

Stable demand from staple food grains market; strong distribution reach, centralised procurement network and well-known local brands - The Group's market is extremely fragmented; however, the demand is stable with all the products forming essential constituents of the consumers' daily diet. It has built a strong marketing and distribution network in its catchment area, facilitating the Group companies in their sales. The Group's 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.

Credit challenges

Government policy and agro-climatic conditions 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. All the goods come under the Essential Commodities Act, wherein the parameters, such as stocking and price levels, are tightly controlled. The company's trading operations were dependent on imports owing to price arbitrage opportunity versus domestic procurement. With surplus domestic production of pulses in FY2018, the Government levied a high import duty on *chana* (60%) that curbed imports, adversely impacting the operating performance. Further, the prices remained volatile leading to low realisations for the Group in FY2019.

Thin profitability inherent to industry; margins further impacted by lower trading turnover and lower quantum of high margin branded sales - 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 sale of branded products was also adversely impacted by the levy of GST on same compared to none for unbranded packaged *besan*. Reduced trading turnover coupled with lower sale of high margin branded products adversely impacted the margins. Operating profitability is expected to improve with stabilisation in the market scenario in the medium term.

Exposure to commodity price cycles and 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: Strong

Poona Dal Group's liquidity is **strong** with, with no long-term debt obligations, unutilised banking limits and healthy cash and cash equivalents of ~Rs. 105.7 crore as on March 31, 2019. The Group's cash flow position remains impacted by lower cash accruals and changes in the working capital intensity. However, there are no capex plans in the near term.

Rating sensitivities

Positive triggers: ICRA could upgrade the Group's rating if the company demonstrates an improvement in its scale and revenues and maintains operating margins in excess of 2.5% and RoCE of 15% on a sustained basis.

Negative triggers: Negative pressure on the Group's rating could arise with the inability to scale its operations on a sustained basis or if the operating margins decline below 1.5% on a sustained basis or there is a significant decline in surplus cash and equivalents from current levels.

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 shared among them.

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 FY2019 (provisional and unaudited), the Poona Dal Group generated OI and PAT (includes extraordinary income of Rs. 15.6 crore) of Rs. 526.9 crore and Rs. 18.2 crore, respectively, on a consolidated basis.

Key financial indicators*

	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	189.0	183.2
PAT (Rs. crore)	2.2	15.1
OPBDIT/OI (%)	0.64%	0.80%
RoCE (%)	10.04%	40.77%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.1
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	2.8	2.4
DSCR	7.5	26.5

*Standalone Financials of PDOIL

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					04 Oct-2019	15 Feb 2019	21 Dec 2017	26-Sept 2016
1	Fund-based	Long term	17.50	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Non-fund based	Short term	216.85	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Amount in Rs. crore

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-(Negative)
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

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