

April 24, 2020

Poona Dal and Oil Industries Limited: Rating downgraded; outlook revised to 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]BBB+ (stable); downgraded from [ICRA] A-; outlook revised from Negative
Short-term – Non-fund based	201.10	198.00	[ICRA]A2; downgraded from [ICRA] A2+
Total	220.10	217.00	

*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 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 rating downgrade factors in the continued weakening in operating performance characterised by reducing scale and size of operations coupled with a decline in profitability for the Group. The operating income of the Group declined by 30.7% YoY in FY2019 and is expected to further decline in FY2020 due to a steep decline in trading volumes of chickpeas or Bengal gram (*chana*). The Group's trading operations were dependent on imports owing to price arbitrage opportunity versus domestic procurement. Since March 01, 2018, the Government of India (GoI) levied a high import duty of 60% on chickpeas (nil on November 01, 2017), which led to a reduction in trading turnover in FY2019 and FY2020. The high import duty was a result of surplus domestic production of chickpeas in the country. Furthermore, with the implementation of 5% GST on branded products, the Group resorted to selling unbranded chickpea flour (*besan*) at lower realisations to traders and local retailers, impacting its overall revenues. Reduced trading turnover coupled with lower realisations resulted in low operating margins of 1.4% in FY2019 for the Group and is expected remain at similar levels in FY2020. The company is also likely to face some operational challenges in the near term, given the logistical challenges and reduction in overall demand amid the nationwide lockdown in response to the novel coronavirus (COVID-19) outbreak. 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-processing, food grains and edible oil industry. It notes the experienced management and the sizeable scale of operations in a fragmented and unorganised sector. 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 staple 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 addition in the share of value-added products, improvement in operating performance and margins, along with adequate management of the working capital will remain 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 and edible oils - PDBM is the flagship company of the Poona Dal Group, which trades and processes pulses and other food grains. Its other Group entity, PDOIL, is engaged in processing 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 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 adequate accruals and low debt levels of Rs. 16.5 crore on March 31, 2019. The Group's gearing was recorded at 0.1 time in FY2019, while TD/OPBITDA was recorded at 2.6 times in FY2019 compared to 1.9 times in FY2018 and interest coverage of 1.9 times in FY2019 compared to 2.0 times in FY2018. The Group primarily utilises non-fund based facilities for procuring pulses and oils, 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 the products forming staple constituents of an Indian's daily diet. It has built a strong marketing and distribution network in its catchment area, facilitating Group companies in their sales. Raw material procurement is 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 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 versus domestic procurement. With surplus domestic production of pulses since FY2018, the Government levied a high import duty on chickpeas (60%), limiting imports, adversely impacting the operating performance and shrinking revenues. Further, with the implementation of 5% GST on branded products, the Group resorted to selling unbranded chickpea flour (*besan*) at lower realisations to traders and local retailers, thus impacting its revenues. The company is also vulnerable to operational challenges in the near term, given the logistical challenges and reduction in overall demand amid the nationwide lockdown in response to the ongoing coronavirus pandemic.

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.

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. The exposure to currency movements has reduced significantly post March FY2018, with a reduction in import of pulses, following the revised duty regulations.

Liquidity position: Strong

Poona Dal Group's liquidity is strong, with minimal long-term debt obligations, unutilised banking limits and healthy cash and cash equivalents of ~Rs. 105.7 crore as on March 31, 2019. The average utilisation for the Group stands at 14.3% for the 12-month period ended December 2019. The Group's cash flow position remains impacted by lower cash accruals and changes in the working capital intensity. There are no capex plans in the near term.

Rating sensitivities

Positive triggers: ICRA could upgrade the Group's rating if it demonstrates an improvement in its scale, revenues and operating margins on a sustained basis.

Negative triggers: Negative pressure on the Group's rating could arise with the Group's inability to scale its operations on a sustained basis, or if the operating margins decline significantly below current levels on a sustained basis, or if 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 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.

Key financial indicators*

	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	189.0	183.2
PAT (Rs. crore)	2.2	15.1
OPBDIT/OI (%)	0.6%	0.8%
RoCE (%)	10.0%	40.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.1
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	2.7	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 (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					24-Apr-2020	04 Oct-2019	15 Feb 2019	21 Dec 2017
1	Fund-based	Long term	19.0	-	[ICRA]BBB+ (stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund based	Short term	198.0	-	[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	19.0	[ICRA]BBB+ (stable)
NA	Non-fund based	NA	NA	NA	198.0	[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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