

January 20, 2020

Naga Hanuman Solvent Oils Pvt. Ltd.: Ratings assigned

Summary of rating action

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long term- Fund based Limits	15.00	[ICRA]BB+(Stable): Assigned
Total	15.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider Naga Hanuman Solvent Oils Private Limited (NHSPL)'s established track record of near two decades in edible oil industry and attractive location of the oil extraction facility near a major agriculture belt of Andhra Pradesh facilitating easy availability of raw material. The rating also considers favourable demand prospects for edible oil industry. The rating, however, is constrained by NHSPL's moderate scale of operations in a highly fragmented and competitive edible oil industry, which is characterized by the presence of large number of players and faces threat from cheaper substitutes, such as palm oil. The rating considers NHSPL's moderate financial profile characterized by thin margins, moderately high gearing and moderate coverage indicators. The rating also considers agroclimatic risks, which can affect the availability of raw material in adverse weather conditions and susceptibility of NHSPL's margins to fluctuations in raw material prices.

The Stable outlook reflects ICRA's belief that NHSPL will continue to benefit from extensive experience of its promoters in the edible oil refining business and its favourable location.

Key rating drivers and their description

Credit strengths

Established presence of NHSPL in edible oil industry – The company has established presence of near two decades in edible oil business resulting in established relationship with suppliers and customers.

Location advantage providing easy access to raw material – NHSPL's oil extraction plant is favorably located in West Godavari District of Andhra Pradesh, which is a major agriculture belt, providing easy access to raw material at lower transportation costs.

Favourable demand prospects for edible oil Industry: Edible oil is an important component of food expenditure for Indian households and the demand for the same is expected to increase with growing population and per capita increase in consumption

Credit challenges

Moderate scale of operations – With an installed solvent extraction capacity of 400 MT per day and with an Operating Income (OI) of Rs.215.5 crore in FY2019, NHSPL's scale remained moderate, despite a healthy growth of ~24% in FY2019. NHSPL has recorded an OI of Rs.172.8 crore for 9 months in current financial year (as per provisional financial statements).

Moderate financial risk profile – The company has a moderate financial risk profile characterised by thin margins, moderately high gearing of 1.5 times as on March 31, 2019 and moderate coverage indicators with an interest coverage ratio of 2.0 times, NCA/total debt ratio of 16% for FY2019.

Highly competitive and fragmented nature of industry – The domestic edible oil industry is highly fragmented and competitive characterized by the presence of large number of players and faces threat from cheaper substitutes, such as palm oil.

Exposure to agro climatic risks and volatility in raw material prices – The company’s revenues are vulnerable to agro-climatic conditions which can affect the raw material availability in adverse weather conditions and its margins are exposed to fluctuations in raw material prices.

Liquidity position: Adequate

NHSPL’s liquidity position is adequate, despite low retained cash flows, with buffer in working capital limits (unutilised limits of over Rs.10.00 crore), minimal repayment obligations (Rs.0.36 crore to be repaid in the next 12 months period) and muted cap-ex plans in the near term. The company plans to enhance its working capital limit by Rs.5.0 crore in the current year, which would provide additional liquidity buffer.

Rating sensitivities

Positive triggers: ICRA may upgrade NHSPL’s rating if the company demonstrates a sustained improvement in its revenues and margins. Specific credit metrics that might lead to an upgrade include OPBDITA / Interest over 2.5 times on a sustained basis.

Negative triggers: Negative pressure on NHSPL’s rating could arise if decline in revenues or margins impacts its financial profile or liquidity position. Specific credit metric that might lead to rating downgrade include OPBDITA / Interest reducing below 1.7 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on standalone financial statements of the company

About the company

NHSPL was incorporated in 2004. The company is engaged in extraction and refining of rice bran oil and cotton seed oil. Its solvent extraction unit is located in Muppavaram Village, West Godavari District with a capacity of 400 MT per day, and it has a refinery with a capacity of 50 MT per day, it also operates a steam power plant with a capacity of 1 MW for in house power consumption. The promoters of the company are Mr Nukala Rama Krishan and Mr Nukula Balaji who have vast experience in this industry.

NHSPL has reported an operating income (OI) of Rs. 215.5 crore and net profit of Rs.2.6 crore in FY2019 against an OI of Rs. 173.8 crore and net profit of Rs. 2.4 crore in FY2018.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	173.8	215.5
PAT (Rs. crore)	2.4	2.6
OPBDIT/ OI (%)	2.9%	2.8%
RoCE (%)	16.3%	18.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	1.9
Total Debt/ OPBDIT (times)	3.8	3.7
Interest coverage (times)	2.0	2.0
DSCR	2.3	2.2

Source: NHSPL

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding	Rating 20-Jan -2020	FY2019	FY2018	FY2017
1 Fund based Limits	Long Term	15.00	-	[ICRA]BB+(Stable)	-	-	-

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	Cash Credit	-	-	-	15.00	[ICRA]BB+(Stable)

Source: NHSP

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