Press Release

D M Corporation

May 21, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Short Term Facility – Non-Fund Based – Letter of Credit	40.00	IVR A3+ (IVR A Three Plus) Under Credit Watch with developing implications
	Total	**40.00**	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating assigned to the bank facilities of the entity derives comfort from G-one groups established market position under its experienced promoters & management team, stable operating performance with moderate financial risk profile marked by comfortable capital structure and prudent working capital management. However, these rating strengths are partially offset by G one groups thin profit margins, susceptibility of business to the vagaries of the climatic conditions and proprietorship nature of constitution of D M Corporation.

The rating is placed under credit watch with developing implication on account of the on-going pandemic situations affecting its key markets. Infomerics is closely monitoring the impact of present pandemic situation and its implications on the business and financial risk profile.

Key Rating Sensitivities

Upward rating factors

- Sustained & significant improvement in revenue & profit margins
- Sustenance of the capital structure while maintaining the debt protection parameters
- Efficient working capital management with improvement in liquidity

Downward rating factors

- Dip in operating income and/or decline in profit margins impacting the debt coverage indicators
- Withdrawal of subordinated unsecured loans treated as quasi equity and/or moderation in the capital structure with deterioration in the overall gearing to over 1x

- Elongation in the operating cycle impacting the liquidity

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and management

Over the last decade, the G-one group have been engaged in the trading of crude palm oil, soya bean oil, cotton seed oil and so on with an established presence in the organized edible oil market. The group benefits from significant industry experience of its promoters, one Patel family of Gandhinagar, Gujarat, who have been collectively associated with the edible oil industry for around three decades.

Established market position with stable operating performance

G-One group has an established market position in Gujarat and nearby states with its presence for more than three decades. With an established presence, the group as a whole delivered a stable performance over the years with a steady revenue between INR 1700 Cr – INR 1830 Cr during FY17-19 backed by steady demand for edible oil in the domestic market. Further, during FY20 (Prov.) the group has achieved a total operating income of INR 1905.66 crore with a y-o-y growth of about ~5%.

Moderate financial risk profile with comfortable capital structure

The financial risk profile of the group is marked by comfortable capital structure backed by healthy net worth with minimal long term debt and moderate debt protection metrics. The group net worth stood healthy at Rs.57.93 crore as on March 31, 2019. The overall gearing stood comfortable at 0.42x as on March 31, 2019. The group mainly use non fund based facilities to fund its creditors. Consequently, total indebtedness of the group as reflected by TOL/ANW remained moderate at 4.22x as on March 31,2019 due to high creditor outstanding. To arrive at the tangible net worth Infomerics has considered unsecured loans aggregating to Rs.8.61 crore as quasi-equity. Further, the debt protection metrics also remained moderate with interest coverage at 1.68x in FY19 (2.27x in FY18 and 2.46x in FY17).

Prudent working capital management

The group exhibits prudent working capital management as reflected by its modest inventory and controlled receivables. To fund its working capital requirement the group mainly utilises non-fund based limits.

Key Rating Weaknesses

G-one group operates with a thin margin over the years due to its less value additive nature of operations and intense competition in the operating spectrum. The EBIDTA margin of the group remained thin and range bound between 1.05- 1.20% over the last three years (FY17-FY19). Driven by low EBITDA margin, the PAT margin also remained thin during the aforesaid period. Moreover, the PAT margin witnessed a moderation from 0.39% in FY18 to 0.17% in FY19 largely due to increase in interest & finance cost during FY19. Further, the profitability is also susceptible to sharp fluctuations in oil prices, and foreign exchange rates, although the risk is mitigated by low inventory holding and procurement of ~80% of requirement on high sea basis locally.

Agro based products susceptible to the vagaries of the climatic conditions

The edible oil business is susceptible to risks pertaining to availability of oil, which is dependent on the climatic conditions. Moreover, the raw material prices depend on international prices and demand supply situation both in the domestic and international markets.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has combined the financial risk profiles G-One Agro Products Limited (GAPL), Aryan Enterprise, Foram Exim LLP and D M Corporation (erstwhile S M Corporation) as these entities are running under a common management, have strong operational and financial linkages and cash flow fungibility. All these entities are collectively referred as the G-one group.

Applicable Criteria

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity of the G-one group expected to remain adequate in the near to medium term in view of its expected sufficient cash accruals in the range of ~Rs.9-10 crore in FY21-22 as compared to its minimal debt repayment obligation.

About the Firm

Established in 2003, G-One Agro Products Limited (GAPL) is a Gandhinagar, Gujarat based company. It was previously constituted as a partnership firm in 2001, as G-One Agro Industries and subsequently converted into a public limited company (Unlisted) in November 2003. It undertakes refining of various plant-based crude oils like palm, groundnut, soya bean and cotton. The company markets refined edible oil under its own brand name "Lifol" and also sells the same in bulk to other retail oil packers, who further sell it under their respective brand names.

D M Corporation (erstwhile S M Corporation) was established by Mr Sanket Patel in 2012 is a proprietorship firm. The firm acts as a raw material procurement arm for GAPL. The primary activities of the firm involves importing of various kinds of edible and non-edible oils namely, crude or refined Oil like Cottonseed Oil, Palm Oil, Soyabean Oil, Mustard Oil, Maize Oil, Sunflower Oil and so on. It then sells these oils to GAPL at prevailing market prices. The business and bank facilities of S M Corporation will be transferred to D M Corporation and the transfer is in process.

Financials: Combined

For the year ended/ As on	31-03-2018	31-03-2019
	Combined	Combined
Total Operating Income	1847.16	1825.30
EBITDA	18.10	21.08
PAT	7.20	3.05
Total Debt	24.73	28.15
Tangible Net-worth	50.88	57.93
Ratios		
EBITDA Margin (%)	0.98	1.16
PAT Margin (%)	0.39	0.17
Overall Gearing Ratio (x)	0.42	0.42

* Classification as per Infomerics' standards

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Audited)
Total Operating Income	128.41	137.38
EBITDA	0.31	2.57
PAT	0.52	0.60
Total Debt	0.00	0.00
Tangible Net-worth	1.87	2.30

For the year ended/ As On	31-03-2018	31-03-2019
Ratios		
EBITDA Margin (%)	0.24	1.87
PAT Margin (%)	0.41	0.44
Overall Gearing Ratio (x)	0.00	0.00

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Non-Fund Based – Letter of Credit	Short Term	40.00	IVR A3+ (IVR A Three Plus) Under Credit Watch with developing implications	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Facility –Non Fund Based - Letter of Credit	-	-	-	40.00	IVR A3+ (IVR A Three Plus) Under Credit Watch with developing implications