Press Release

Rajaram Solvex Limited

March 22, 2021

Ratings:

Instrument / Facility	Amount (INR Crore)	Ratings	Rating Action
Long Term Fund Based Bank Facilities – Cash Credit	5.95	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Total	**5.95**		

Details of Facilities are in Annexure 1

Detailed Rationale:

The aforesaid ratings assigned to the bank facilities of Rajaram Solvex Limited derives strength from experienced management and long track record of operations, strategic location of manufacturing units with proximity to raw material, favourable demand outlook for Soya bean oil, diversified client base, range bound revenue & EBITDA margin, comfortable capital structure & debt protection metrics and efficient working capital management. The rating however is constrained by vulnerability of the operating margin to vagaries of climatic condition, exposure to intense competition and susceptibility to changes in government policies.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the Company's revenue and/or profitability while maintaining the debt protection metrics.

Downward Factors

- Any decline in scale of operations and/or profitability leading to sustained deterioration of liquidity and/or debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced management and long track record of operations:

Company's directors have over two decades of experience in the edible oil industry. This has given them a sound understanding of the industry which has helped to make timely purchase and stocking decisions and establish relationships with suppliers and customers. The company has a team of experienced and qualified professionals, having over a decade of experience in the segment, to look after the overall management.

Strategic location of manufacturing units with proximity to raw material sources:

Company's manufacturing facility is located at Sangili, Maharashtra strategically located in one of the major soyabean producing regions of India which makes it easier for the company to access its primary raw material with low logistical expenses.

Favourable demand outlook for Soya bean oil:

Soya oil is largely consumed in food products, as its pungency is a desired and inherent part of many cuisines. Per capita consumption in soya oils is growing and hence the demand for soya bean oil is estimated to move faster in the medium to long term on account of the higher disposable income. The transition phase of this growing demand is also triggered by rise in the branded packaged organic soya bean oil. The Soya bean oil market continues to be underpenetrated in India, and given the positive macro and demographic fundamentals, it has a favorable demand growth outlook over the medium-to-long term.

Diversified client base:

With promoters' extensive experience, the company has been able to gather a diversified client base as the company is in the business for over two decade and has created it name in the segment. The top 10 customers of the company accounts for 47% of the sales in FY20 indicating a diversified client base.

Range bound revenue & EBITDA margin:

Company's Revenue remained range bound between INR339.88 – INR364.98 Crore in the last three years ended FY20. EBITDA Margin remained in the range of 2.33% - 3.97%.
During 9MFY21, the company has achieved revenue of INR312.5 Crore as compared to INR269.6 Crore in 9M FY20. The increase in revenue is due to increased demand and improved realisations.

Comfortable capital structure & debt protection metrics

Company's capital structure remained comfortable as on the past three account closing dates ending FY20. The overall gearing ratio was around 0.22x in FY20 (FY19: 0.74x) and Long debt-equity stood at 0.01 times as on 31 March 2020. The financial risk profile of the company is healthy marked by healthy net worth and debt protection metrics. The net worth of group stood at INR49.50 Crore as on 31 March 2020 (INR41.60 Crore). Debt protection metrics also remained comfortable with interest coverage ratio of 7.68x in FY20 (FY19:

5.33x). Total Debt / GCA ratio was at 1.14 times in FY2020. Further, TOL/TNW stood at 0.38 times as on 31 March 2020. Total debt/GCA, interest coverage & other debt protection metrics expected to remain healthy moving forward.

Efficient working capital management:

The company cash conversion cycle is comfortable with 12 days in FY 20. The average collection period was 1 day in FY 20 (3 days). The average inventory days was at 16 days in FY20 (15 days).

Key Rating Weaknesses:

Operating margin susceptible to vagaries of climatic condition:

Soya oil is extracted from soya seeds, the supply of which is dependent on the soya crop in the country during the year, which, in turn, is dependent upon the monsoon. During years when rainfall is erratic, there is short supply of seeds, leading to idle capacities and high input costs. This adversely impacts the margins of edible oil players. Furthermore, the domestic soya prices against those in international markets also impact players' business in the global market. Lower soya bean prices in Latin American countries have adversely affected the soya de-oiled cake (DOC) sales and profitability of players in the past. The operating margin of the company has been modest at 2-4% in the three fiscals ended 2019. The extent of volatility in the margin will remain a key monitorable.

Exposure to intense competition, leading to low profitability:

The edible oil industry in India has a large number of players, leading to intense competition and limited pricing power. Moreover, low value addition and volatile input prices also impact the margin.

Susceptibility to changes in government policies:

The prices of edible oils are linked to domestic oilseed prices, which are determined by output and minimum support price (MSP) fixed by the Government of India, and by international price trends. Because oil is an agricultural commodity, there is significant government intervention in the industry. To ensure remunerative prices to farmers, the government fixes the MSP on oilseeds periodically. On the other hand, it restricts any major increase in end product prices as edible oil is an essential commodity and has a bearing on the wholesale price index and inflation.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its debt obligations. Also, the firm do not have any major long-term repayment obligations and major capex plans. The average cash credit utilisation was around 13.22% during the last twelve months ended 31st December 2020.

About the Company:

Incorporated in May 1991 & situated in Sangili, Rajaram Solvex Limited is in the business of extraction of edible Oils mainly from Soybean through the Solvent Extraction Process. Company has three Oil Extraction mills with total extraction capacity of 800 MT per day, two Oil Refineries with a capacity 125 MT per day and a Biomass Pellet Plant of 75 MT per day capacity. The company also have 3 windmills of 0.35 MW each at Satara District.

Financials: Standalone

(INR Crore)

For the year ended/ As On	31-03-2019	31-03-2020
	(Audited)	(Audited)
Total Operating Income	342.71	339.88
EBITDA	7.98	9.82
PAT	3.35	7.17
Total Debt	30.84	10.86
Tangible Net-worth	41.60	49.50
Ratios		
EBITDA Margin (%)	2.33	2.89
PAT Margin (%)	0.97	2.09
Overall Gearing Ratio (x)	0.74	0.22

Status of non-cooperation with previous CRA: Nil

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR 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.	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	5.95	IVR BBB-/Stable	--	--	--

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	5.95	IVR BBB- /Stable