Kanpur Edibles Private Limited

January 22, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	83.23	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	-	Assigned	Simple
Short Term Bank Facilities	800.00	IVR A2 (IVR A Two)	-	Assigned	Simple
Total	**883.23 (Rupees Eight hundred and eighty-three crore and twenty-three lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned long term and short-term ratings to the bank facilities of Kanpur Edibles Private Limited (KEPL). The ratings derive strength from long track record of operations, experienced promoters, diversified product profile, reputed clientele, comfortable capital structure and debt protection metrics. The rating strengths are, however, constrained by moderation in scale of operations in FY24 (refers to the period April 01 to March 31), susceptibility of margins to volatile raw material prices, foreign exchange volatility risk, exposure to intense competition in the edible oil industry and susceptibility to changes in government policies.

The Stable outlook reflects that KEPL will maintain its credit risk profile and will benefit from its regional market position driven by its established brand, ‘Mayur’.

Key Rating Sensitivities:

Upward Factors

- Improvement in scale of operations and profitability on a sustained basis.

Downward Factors

- Decline in revenues and profitability impacting the debt protection metrics.
- Stretch in the working capital cycle or large debt-funded capital expenditure deteriorating the debt protection metrics and liquidity.
- Any adverse or punitive action associated with the income tax raid having a negative impact on the operations of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations and experienced promoters

KEPL is a part of Mayur group of Uttar Pradesh and is engaged in manufacturing, refining, and trading of edible oils for more than three decades which has helped the company in establishing long-standing business relationships with its suppliers and customers. The company is managed by Mr. Manoj Kumar Gupta and Mr. Sunil Kumar Gupta, who have more than three decades of experience in the similar line of business. The promoters have supported the business requirements of the company in the form of unsecured loans. The company sells its products under the brand name 'Mayur' and has established presence in the Northern region of the country.

Diversified product profile and reputed clientele

KEPL has backward and forward integrated operations leading to a well-diversified product portfolio consisting of various types of edible oils, such as palm oil, mustard oil, sunflower oil, and soybean oil, along with other products such as soya bari, cattle feed and soap & detergents. Further, the company derives majority of its revenue from institutional sales (~50% of total revenue in FY24) wherein the company sells its finished products to top biscuit manufacturing companies.

Comfortable capital structure and debt protection metrics

KEPL's adjusted tangible networth (including unsecured loans and intercorporate deposits of Rs.95.93 crore considered as quasi equity) stood at Rs.762.33 crore as on March 31, 2024, as against Rs.730.75 crore as on March 31, 2023. The total debt of the company reduced to Rs.121.88 crore as on March 31, 2024, from Rs.430.50 crore as on March 31, 2023, and mainly comprises of working capital borrowings, term loans and unsecured loans from promoters/directors. Accordingly, the adjusted overall gearing ratio and TOL/ATNW improved to 0.16x and 0.65x respectively as on March 31, 2024, from 0.59x and 1.27x respectively as on March 31, 2023.The company primarily relies on its non-fund-based limits, Letter of Credit (LC) along with fund based working capital limits to meet its working capital requirements. The debt protection metrics with interest coverage and debt service coverage ratio moderated but stood comfortable at 4.76x and 1.86x respectively in FY24 against 12.52x and 7.16x respectively in FY23. Total debt/EBITDA stood at 1.72 times in FY24 (PY: 1.97x)

Key Rating Weaknesses

Moderation in scale of operations in FY24

The company registered healthy growth in the scale of operations over the last 2 years ending FY23 at a CAGR of 3.92% driven by growth in institutional sales and retail sales. However, the total operating income of the company reduced by 32.21% in FY24 over FY23 and stood at Rs. 4404.10 crore, largely due to moderation in the edible oil prices leading to lower realization. Accordingly, the company sustained relatively lower operating profit margin of 1.61% in FY24 as against 3.36% in FY23 along with PAT margin of 0.74% in FY24 as against 2.12% in FY23. Trading activity reduced to 5.31% of total revenue in FY24 as against 18.09% of total revenue in FY23. However, during H1FY25, the company recorded revenue of Rs.2722.21 crore, an increase by 15.11% from Rs. 2364.86 crore in H1FY24. EBITDA margin too improved to 4.47% in H1FY25 vis a vis 0.78% in H1FY24.

Susceptibility of margins to volatile raw material price fluctuations and foreign exchange volatility risk

In agro based industry, raw material prices remain volatile depending on factors like geo-climatic conditions, international prices and domestic demand-supply situation and government policies. Further there is limited value additive nature of operations. Further, 66% of the company’s raw material requirement were met through imports, whereas 99.10% of its sales were domestic in FY24. Company purchases are backed by orders through around 50% of institutional sales wherein sale price is fixed considering markup over raw material cost and processing cost. Thus, the exposure of company is indirectly hedged to an extent of sales to such customers. Also, forex risk is partially mitigated by taking back-to-back sale contracts with customers. The EBITDA margin remained around 3.79% and 3.36% for FY22 and FY23 however declined to 1.61% in FY24. Volatility in prices of raw materials and the company's ability to pass the same to the customers will remain a key rating monitorable.

Exposure to intense competition in the edible oil industry

The edible oil industry is highly competitive with presence of both large national players and multiple regional players. Along with logistics and supply chain capability, the large integrated players have a sizeable oil processing and packaging scale with wide distribution network. Thus, profitability is inherently low and is further exposed to movement in prices of raw material, finished goods and other substitutes.

Susceptibility to changes in government policies

The prices of edible oils are linked to domestic oilseed prices also, which are determined by output and minimum support price (MSP) fixed by the Government of India after considering international price trends. Since 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.

Also, the price of palm oil imported by India from the largest exporters of the commodity in the world, i.e., Indonesia and Malaysia, are affected by the frequent duty structure changes done by the respective governments to protect their domestic industries. Accordingly, KEPL is also exposed to adverse changes in regulatory and import/export duty structures based on actions of various government institutions.

Search Operations by the Income Tax department

The Income Tax department carried out a search operation on the premises of KEPL including the promoter family, related parties and group companies between October 05, 2023, and October 09, 2023. Infomerics has noted this development.

Any adverse or punitive action that may have a negative impact on the operations and financial profile of the company shall be a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the company remains adequate as cash accruals are expected to match adequately with debt repayment obligations of Rs.17.71 crore in FY25 and Rs.11.17 crore in FY26. The average fund based working capital utilisation for last 12 months ended October 2024 stood low at 20.52%. The company imports crude palm oil against LC and the average utilisation of the LC limits remain close to 70%. The current ratio stood at 2.16x as on March 31, 2024. Further, KEPL has cash and cash equivalent of Rs.328.33 crore as on October 31, 2024.

About the Company

Kanpur Edibles Private Limited, established in 1990, is the flagship company of the Mayur Group, headquartered in Kanpur, Uttar Pradesh. The company is currently managed by Mr. Manoj Kumar Gupta and Mr. Sunil Kumar Gupta. KEPL specializes in manufacturing, refining, and trading of edible oils, with a refining capacity of 2,40,000 MTPA as of March 31, 2024. It also operates a solvent extraction plant with a capacity of 294,000 MTPA, extracting raw soybean and mustard oil. The by-products from this process are used to produce soya bari. In addition, the company has presence across segments such as vanaspati, cattle feed, and soap & detergents. KEPL markets its products under the brand names 'Mayur' and 'Cook & Fry' for product range of edible oil, 'Vinu' for soap, 'Apna Pashu Ahar' for cattle feed.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	6496.54	4404.10
EBITDA	218.25	70.69
PAT	138.01	32.50
Total Debt	430.50	121.88
Tangible Net Worth	642.81	675.80
EBITDA Margin (%)	3.36	1.61
PAT Margin (%)	2.12	0.74
Overall Gearing Ratio (x)	0.82	0.32
Interest Coverage (x)	12.52	4.76

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: The rating continues to remain under ISSUER NOT COOPERATING category from Brickworks and CARE Ratings as per press release dated May 23, 2024, and December 31, 2024, respectively due to unavailability of information for monitoring of rating.

Any other information: Nil.

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
1.	Term Loan	Long Term	23.23	IVR BBB+/ Stable	-	-	-
2.	Cash Credit	Long Term	60.00	IVR BBB+/ Stable	-	-	-
3.	Letter of Credit	Short Term	800.00	IVR A2	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term loan	-	-	-	June 07, 2026	20.29	IVR BBB+/ Stable
Term loan	-	-	-	August 07, 2026	2.94	IVR BBB+/ Stable
Cash Credit	-	-	-	-	60.00	IVR BBB+/ Stable
Letter of Credit	-	-	-	-	800.00	IVR A2

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-kanpuredible-jan25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable.

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable.

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.