



## Press Release

### Modi Naturals Limited

January 04, 2024

#### Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long-Term Bank Facility	55.00	IVR BB+; Positive (IVR Double B Plus with Positive outlook)	Assigned	Simple
Short-Term Bank Facility	10.00	IVR A4+ (IVR A Four Plus)	Assigned	Simple
<b>Total</b>	<b>65.00</b> <b>(INR Sixty-Five crore only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Modi Naturals Limited (MNL) derives strength from its experienced promoters, presence of established brand with strong marketing and selling networks coupled with locational advantage of the plant. Further, the ratings also consider completion of project under its wholly owned subsidiary Modi Biotech Private Limited (MBPL) which will drive the consolidated earnings of the company going forward and support from central government initiatives in Ethanol Blended Petrol (EBP) programme. The ratings also note its average capital structure and infusion of further capital during FY24 through conversion of warrants into equity shares. However, these rating strengths remain partially offset by moderation in its operational performance in FY23 along with average debt protection metrics. Further the ratings continue to remain constrained by intense competition in the industry resulted in thin operating margin, vulnerability of profitability to fluctuations in prices, exposure to agro-climatic risks and regulatory risk. The outlook of the company remained positive on the back of commencement of operation in MBPL leading to expected improvement in the consolidated revenue and profitability of the company in the near term with healthy demand outlook of ethanol in the country.

#### Key Rating Sensitivities:

##### Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and liquidity



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- Improvement in the capital structure with sustained improvement of debt protection metrics

### **Downward Factors**

- Dip in operating income and/or moderation in profitability impacting the debt coverage indicators
- Moderation in overall gearing to more than 2x times and any moderation in interest coverage ratio to below 1.5x
- Elongation of the working capital cycle leading to deterioration in liquidity

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths:**

- **Experienced promoters**

The company is promoted by Mr. Anil Modi (Chairperson & Managing Director), having experience of more than four decades in the business of edible oils and other food products. His rich experience along with support of other directors help the organisation to build established brand. The promoters are actively involved in managing the day-to-day affairs of the company along with the support of experienced and qualified professionals.

- **Established brand with strong marketing and selling networks**

The company sells edible oil and other allied products under the brand name Oleev Olive oil, Oleev Active Multisource oil (Blend of Olive oil and Rice Bran Oil), Oleev Health Multisource oil, Oleev Smart Multisource oil, Rizolo Rice bran oil, Olivana Olive Oil, Miller Canola Oil, PIPO Popcorn, PIPO Peanuts, Oleev Kitchen Pasta, Oleev Kitchen Peanut Butter and JYNX Instant Drink Mix etc. The company has developed a pan-India distribution network across all channels of FMCG. Further, the Company is also present on various popular e-commerce platforms. Moreover, the company has wide distribution channel to cover 3,000 organized modern retail outlets and has around 450 distributors pan India with a direct reach of about 50,000 retail stores.

- **Locational advantage**

The manufacturing facilities of MBPL will be in Raipur District of Chattishgarh. The area has sufficient availability for rice which provides easy availability of Grains to run a grain-based distillery. Accordingly, proximity to the source of raw materials & end user market provides a competitive edge. This apart, the area is well connected by road and rail.

- **Completion of project under MBPL**



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From October 2023, the wholly owned subsidiary Modi Biotech Private Limited has commenced its operation which would be engaged in producing grain-based ethanol. Further, Modi Biotech Private Limited (MBPL) has successfully secured an order for 3.72 crore litres of ethanol, with an estimated value of approximately Rs.240 Crore, from various Oil Manufacturing Companies (OMCs) including Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL). Expected revenue generation

- **Average capital structure**

MNL had a comfortable net worth base which stood at Rs.81.72 crore as on March 31, 2023. The capital structure of the company has moderated in FY23, due to rise in debt level to set up a 110 KLPD grain-based ethanol distillery along with a 5.5 MW captive power generation plant in the subsidiary i.e. Modi Biotech Private Limited. Owing to increase in debt level, the debt equity ratio and overall gearing of the company though moderated yet remained comfortable at 1.14x and 1.74x respectively as on March 31, 2023, against from 0.01x& 0.66x as on March 31,2022. Total indebtedness of the company marked by TOL/TNW also deteriorated from 1.14x as on March 31,2022 to 2.21x as on March 31,2023. Further during FY24, MNL has converted 6,50,000 warrants into equivalent number of equity shares which has boosted the net worth by ~Rs. 13.45 crore.

- **Policy initiatives by the Government**

In January 2013, the Union government launched the Ethanol Blended Petrol (EBP) programme, which made it mandatory for oil companies to raise ethanol blending in petrol to 25% by 2025 from the current ~5%. In lieu of the above developments and also given that the government currently does not allow import of ethanol for fuel blending, the outlook appears bright for this industry.

### **Key Rating Weaknesses:**

- **Moderation in operational performance in FY23**

The total operating income of the company remain erratic over the past three fiscals as it moved from Rs. 442.70 crore in FY21 to Rs. 474.30 crore in FY22 and then declined to Rs. 417.96 Crore. In FY23. The moderation in topline was on account of decline in sales volume and average sales realisation and profitability has taken a hit due to the fall in international oil and other commodity prices which has led to inventory losses for FY23 as the EBITDA margin of the company decline from 3.10% in FY22 to 1.20% in FY23. Further, on the back



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of moderation in absolute EBITDA coupled with the ongoing capex in the subsidiary, increased finance cost the PAT margin also moderated to 0.25% in FY23 from 1.97% in FY22. In H1 FY24, MNL has managed to churn out operating revenue of ~Rs.175.56 crore at an EBITDA margin of ~2.71%.

- **Average debt protection metrics**

The debt protection metrics of the company has deteriorated in as on March 31,2023 on account decline in absolute EBITDA. The interest coverage ratio has deteriorated from 8.89x as on March 31,2022 to 1.50x as on March 31,2023. Further, Total debt to EBITDA deteriorated from 3.47x as on March 31,2022 to 28.34x as on March 31,2023. Total debt to GCA also deteriorated from 4.99x as on March 31,2022 to 56.91x as on March 31,2023.

- **Intense competition in the industry result in thin operating margin**

The edible oil industry in India is characterized by intense competition and fragmentation, with the presence of a large number of edible oil refineries and low entry barriers. As a result of high competition and fragmentation, profit margins in the edible oil business tend to remain thin.

- **Vulnerability of profitability to fluctuations in prices, exposure to agro-climatic risks and regulatory risk**

The company is vulnerable to agro-climatic risks, considering the availability and prices of its raw materials depend on climatic conditions. Further, the company deals in edible oils, the prices of which are regulated by the government on a continuous basis. The products come under the Essential Commodities Act, where stocking and price levels are tightly controlled. The company's profitability is also vulnerable to the regulatory changes with respect to imported raw materials. MNL is also exposed to the risks emerging from geo-political issues due to its reliance on import of raw materials.

**Analytical Approach:** Consolidated.

For arriving the rating Infomerics has taken consolidated approach as the company has one wholly owned subsidiary namely Modi Biotech Private Limited (MBPL) controlled by the same management. Further, Modi Naturals Limited has also extended corporate guarantee to MBPL. The lists of companies considered for consolidation are given in Annexure 3

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)



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[Criteria of assigning rating outlook](#)

[Consolidation of Companies](#)

[Criteria on default recognition](#)

### **Liquidity: Adequate**

The liquidity of the company is expected to remain adequate in the near to medium term marked by its expected sufficient cash accruals vis-à-vis its debt repayment obligations. The company is expected to earn gross cash accruals in the range of ~Rs.16-48 crore on a consolidated basis which is expected to be sufficient to meet its debt obligations ranging from ~Rs.5.71 crore- Rs.15.59 crore during FY24-FY26. Further, the average working capital utilization of the company remained moderate at ~72% indicating sufficient liquidity buffer.

### **About the Company**

Delhi based Modi Naturals Limited (MNL) was incorporated in 1974 and it is engaged in manufacturing and distribution of edible oils and FMCG products. MNL is listed in Bombay Stock Exchange and it has four production facilities in India. Out of four manufacturing facilities, two units are located at Pilibhit Uttar Pradesh, one unit in Hyderabad, Telangana, and one in Sonipat, Haryana. During FY22, the company incorporated a wholly owned subsidiary, Modi Biotech Private Limited. Modi Biotech Private Limited has setup a 110 KLPD grain-based ethanol distillery along with 5.5 MW captive power generation plant on a land measuring 24 acres, in Village Bhilai, PH no. 59, Tehsil Arang, District Raipur, Chhattisgarh. The company commenced its commercial production in October 2023.

### **Financials of Modi Naturals Limited (Consolidated):**

For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	474.30	417.96
EBITDA	14.71	5.03
PAT	9.37	1.07
Total Debt	51.05	142.50
Tangible Net worth	77.18	81.72
EBITDA Margin (%)	3.10	1.20
PAT Margin (%)	1.97	0.25
Overall Gearing Ratio (x)	0.66	1.74
Interest Coverage	8.89	1.50

\*Classification as per Infomerics' standards.





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### Financials of Modi Naturals Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	474.30	417.96
EBITDA	15.07	5.53
PAT	9.40	1.17
Total Debt	50.96	49.40
Tangible Net worth	77.22	81.87
EBITDA Margin (%)	3.18	1.32
PAT Margin (%)	1.98	0.28
Overall Gearing Ratio (x)	0.66	0.60
Interest Coverage	7.62	1.47

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** CARE Edge Ratings has moved the rating under Issuer not co-operating category vide press release dated December 01, 2023, due to non-cooperation from the company.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Cash Credit	Long Term	55.00	IVR BB+/Positive	-	-	-
2.	Letter of Credit/Bank Guarantee	Short Term	10.00	IVR A4+	-	-	-

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### About Infomerics:



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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.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	55.00	IVR BB+/ Positive
Short Term Non-Fund Based Limits – LC/ Bank Guarantee	-	-	-	10.00	IVR A4+



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**Annexure 2: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-Modi-Naturals-jan24.pdf>

**Annexure 3: List of companies considered for consolidated analysis:**

Name of the Company	Consolidation Approach
Modi Naturals Limited	Full Consolidation
Modi Biotech Private Limited	Full Consolidation

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** 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](http://www.infomerics.com)