



Press Release

Sree Mahalakshmi Oil Mills (SMOM)

August 16, 2023

Ratings:

Instrument / Facility	Amount (INR Crore)	Ratings	Rating Action	Complexity Indicator
Long Term-Fund Based-Bank Facilities	25.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned	Simple
Total	25.00	Rupees Twenty-Five Crore		

Details of Facilities are in Annexure 1

Detailed Rationale:

The ratings assigned to the bank facilities of Sree Mahalakshmi Oil Mills factors in experienced proprietor with long track record of operations with strong relationship with customers, growth in total operating income with comfortable debt coverage indicators and stable demand outlook albeit intense competition in the industry.

The ratings however constrained by thin profitability, leverage capital structure, highly competitive and fragmented nature of the industry, exposure to regulatory and geopolitical risk.

Key Rating Sensitivities:

Upward Factors:

- Substantial & sustained improvement in revenue & profitability leading to improvement in debt coverage indicators.
- Substantial improvement in the capital structure leading to overall gearing reducing below 1.5x on a sustained basis.

Downward Factors:

- Any decline in operating income and/or profitability. Any major withdrawal of capital leading to increasing of overall gearing above 3.5x.

Key Rating Drivers with detailed description

Key Rating Strengths:



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Experienced proprietor with long track record of operations

Mr. S. Kanakaraj is the proprietor of SMOM was established in 2002. The proprietor holds three decades of experience in similar line of business. He has completed his secondary school of education. Prior to establishment of SMOM, Mr. Kanakaraj was worked with Senthil Traders which was established in 1989 by his father. The firm's long track record of operations for more than a two decades and vast experience of the proprietor benefits the firm to receive the continues orders from existing and new customers.

Strong relationship with customers

The firm has strong relationship with customers and suppliers for more than a decade. SMOM has more than 150 customers in Tamil Nadu and Karnataka. The top ten customers contributed 31.76% of total sales in FY23.

Growth in total operating income and comfortable debt coverage indicators

SMOM's total income grew to Rs. 651 crore over past five years ended FY23. During FY21, the total income increased significantly by 69% to Rs. 480.86 crore from Rs. 284.54 crore in FY20. During FY23, the firm recorded income of Rs. 651.34 crore as against Rs. 608.78 crore in FY22 due to continues demand for edible oils. The GCA of the firm increased during the year as compared to previous fiscal, however the total debt has increases in FY23 which resulted as deterioration of total debt/GCA deteriorated to 6.51x as of March 31, 2023 (Prov.) from 5.78x as of March 31, 2022. The interest coverage improved to 3.96x in FY23 (Prov.) from 2.84x in FY22.

Stable demand outlook albeit intense competition in the industry

Edible oil industry is expected to grow annually by 7-8%, with rising demand owing to increase in population, disposable incomes, and growth of food processing sector. The consumption of edible oil in India has been rising steadily which can be attributed to factors such as better standard of living, growth in demand for fried processed food products and branded packaged edible oil. India's annual per capita consumption is well below the world average; thus, signifying substantial growth potential for the edible oil industry.

Key Rating Weaknesses:

Thin Profitability and leverage capital structure



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The EBIDTA margin of the firm remained thin ranging from 0.93% to 1.30% over past five years ended FY23. However, in FY23, EBIDTA margin improved to 1.30% from 0.80% in FY22.

The firm has been sanctioned with guaranteed emergency term loan of Rs. 2.5 crore and the working capital limit has enhanced from Rs. 7.9 crore to Rs. 22.50 crore in September 2022 to meet its working capital requirements. This has resulted in marginal deterioration of overall gearing to 3.58x as of March 31, 2023 as against 3.23x as of March 31, 2022. Additionally, the inherent risk associated with proprietorship nature of the firm is outweighed by the significant experience of the proprietor in the and their ability to bring in capital to support the operations.

Highly competitive and fragmented nature of the industry

The Indian edible oil industry is intensely competitive due to numerous small players and some reputed players. Moreover, the firm has thin profit margins due to the trading nature of operations without any value addition.

Exposure to regulatory/ geopolitical risk

India remains dependent on edible oil imports from countries like Indonesia, Malaysia, Ukraine, Russia, etc. Any issue in the producing countries such as export ban or an event like the Russia–Ukraine conflict or a bad crop may hamper the availability of raw material and spark a price rise. The Government of India also regulates edible oil imports via import duty and agri-cess, which are also a risk for industry player.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

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

[Criteria on Default Recognition](#)

[Criteria for rating outlook](#)

Liquidity-Adequate

Liquidity is adequate marked by sufficient accruals to repay its term debt obligations of Rs. 5.72 crore as of March 31, 2023 (Prov.) and cash and bank balance of Rs. 4.74 crore as of balance sheet dated March 31, 2023. The operating cycle of the firm stood comfortable at 12



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days in FY23 as against 8 days in FY22. The firm allows credit period upto 10 days to its customers while it follows advance payments to its edible oil suppliers and from packing material suppliers the firm avails upto 10 days. The firm has been sanctioned with cash credit of Rs. 22.50 crore which has been enhanced from Rs. 7.90 crore in September 2022 and the average utilisation stood at 87.53% for last twelve months ended May 2023. The current and quick ratio stood at 1.37x in FY23 as against 1.75x in FY22.

About the Firm:

Sree Mahalakshmi Oil Mills (SMOM) is a proprietorship firm, was established in September 2002 by Mr. Kanakaraj. The firm engaged in trading of edible oils viz. palmolein oil, sunflower oil, rice oil and ground nut oil and engaged in processing of sunflower oil on small scale. The firm has crushing unit located at Karamadai with installed capacity of three oil expellers which can produce 10-15 tonne of oil per day. SMOM manufactures and supplies to retail shops located domestically in its own brand name 'Mahas Gold'.

Financials: Standalone

For the year ended / INR. Crore*	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	608.81	651.64
EBITDA	4.85	8.48
PAT	1.95	3.56
Total Debt	18.33	30.87
Tangible networth	5.68	8.63
Ratios		
EBIDTA Margin (%)	0.80	1.30
PAT Margin (%)	0.32	0.78
Overall Gearing Ratio (x)	3.23	3.58

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding	Rating	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)



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			(INR Crore)		assigned in 2022-23	assigned in 2021- 22) assigned in in 2020- 21
1.	Long Term Bank Facility - Term Loan	Long Term	2.50	IVR BB+/ Stable	-	-	-
2.	Long Term Bank Facility - Cash Credit	Long Term	22.50	IVR BB+/ Stable	-	-	-

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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.

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.



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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan	-	-	October 2026	2.50	Assigned
Cash Credit	-	-	-	22.50	Assigned

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-smom-aug23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable



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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

