Press Release

Sri Anagha Refineries Private Limited

September 07, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Facility - Term Loans	1.58	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)
2	Long Term Facility - Cash Credit	14.00	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)
3	Short Term Facility - Letter of Credit	134.42	IVR A3 (IVR A Three)
	Total	**150.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoters, financial support from promoters, comfortable capital structure, increased focus on refining of sunflower oil and established network of distributors. The rating however is constrained by benefits of expanded capacity yet to accrue, low profitability, susceptibility of profitability to intense competition and agro based products susceptible to the vagaries of the climatic conditions. Improvement in profitability and improvement in debt protection metrics are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters:

The promoters have over a decade long experience in the edible oil industry. Prior to setting up of refinery in 2015, they were engaged in packaging of palm oil. The Company is likely to benefit from the extensive experience of its promoters over the medium term.

Financial support from promoters:

The promoters have demonstrated their support towards the Company by infusing interest free unsecured loans which stood at ~ Rs.43crore in FY19. These loans from the promoters are subordinated to the bank facilities availed by SARPL.

Comfortable capital structure:

SARPL has a comfortable capital structure marked by an overall gearing ratio of 0.24x and TOL/TNW of 0.96x (unsecured loans have been treated as quasi equity), as on March 31, 2019.The same is expected to improve over the medium term on the back of improvement in net worth driven by increase in accretion to reserves.

Increased focus on refining of sunflower oil:

The Company completed the expansion work involving enhancing its refining capacity of 75 tons per day to 150 tons per day. SARPL also completed work towards laying of an 8km long pipeline from Mangalore Port to its factory. The benefits from enhanced capacity and direct pipeline from the port to factory along with increased focus on refining of sunflower oil are likely to result in higher operating margins going forward.

Established network of distributors:

SARPL benefits from the established distribution network with over 250 distributors and traders across Andhra Pradesh, Karnataka, Kerala and Goa.

Key Rating Weakness

Benefits of expanded capacity yet to accrue:

The temporary shut-down of operations at the plant for 2.5 months in FY19 due to expansion of the installed capacity to 150tpd from 75tpd, resulted in lower production and sales. The company will complete a full financial year operating at its full expanded capacity only in FY20. Hence, the company is yet to stabilize its operations and reap the full benefit of the capacity expansion.

Low profitability:

SARPL has posted losses in the years through FY16 till FY18, while the EBITDA margin and PAT margin for FY19 were low at 1.62% and 0.19%. With the change in focus of the company towards refining of sunflower oil, the profitability margins are expected to improve in the medium term as the operations of the company stabilize post the capacity expansion.

Susceptibility of profitability to intense competition:

The Indian edible oil industry is highly fragmented marked by the presence of numerous small players and low entry barriers. A large number of small units are operating in the sector with unbranded oils capturing a large part of the industry. This has resulted in weak profitability margins. SARPL is likely to remain exposed to intense competition in the industry.

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. The Company is likely to remain exposed to volatility in raw material prices.

Analytical Approach & Applicable Criteria

Standalone

Financial Ratios & Interpretation (Non-Financial Sector)

Rating Methodology for Manufacturing Companies

Liquidity

The company has adequate liquidity. SARPL is expected to generate adequate cash accruals over the medium term as against repayment obligations. Further, the bank limits remained moderately utilized in the twelve months through May-19. Liquidity is further supported by financial support from promoters in the form of unsecured loans.

About the Company

Sri Anagha Refineries Private Limited (SARPL) is a Mangalore based company engaged in packaging of palmolein oil and refining of sunflower oil. The Company sells Sunflower oil under the brand name “Sun Premium”& packed palm oil under the brand name “Palm Jyothi”. The Company has over 250 distributors and traders across Karnataka, Andhra Pradesh, Kerala and Goa.

Financials **(Rs. crore)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	536.05	426.93
EBITDA	4.14	6.92
PAT	-0.79	0.82
Total Debt	18.31	15.90
Tangible Networth	55.90	67.25
EBITDA Margin (%)	0.77	1.62
PAT Margin (%)	-0.15	0.19
Overall Gearing Ratio(x)	0.33	0.24

* 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:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Facility - Term Loans	Long Term	1.58	IVR BBB-/ Stable outlook	--	--	--
2.	Long Term Facility – Cash Credit	Long Term	14.00	IVR BBB-/ Stable outlook	--	--	--
3.	Short Term Facility – Letter of Credit	Short Term	134.42	IVR A3	--	--	--

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 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	--	--	July 2021	1.58	IVR BBB-/ Stable outlook
Cash Credit	--	--	--	14.00	IVR BBB-/ Stable outlook
Letter of Credit	--	--	--	134.42	IVR A3