Press Release

Shri Venkatesh Refineries Limited

May 23, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple/ Complex/ Highly complex)
Long Term Bank Facilities	92.68	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Proposed Long Term Bank Facilities	67.32	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total	**160.00 (Rupees one hundred and sixty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned for the bank facilities of Shri Venkatesh Refineries Limited derive strength from experienced promoters, established brand, location specific benefits with procurement network in place, continuous improvement in business performance, moderate capital structure and debt protection metrics. However, the rating strengths are partially offset due to Intense competition in the industry resulting in thin operating margin, vulnerability of profitability to fluctuations in prices, exposure to agro-climatic risks and regulatory risk, geographical concentration risk and risk associated with new expansion project.

Key Rating Sensitivities:

Upward rating factor

- Growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and liquidity.
- Improvement in the capital structure with improvement in TOL/TNW to below 2x along with sustained improvement of debt protection metrics.
- Timely completion of project in envisaged cost and time.

Downward rating factor

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

List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Experienced promoters:

The company is managed by the promoter directors Mr. Dinesh Ganapati Kabre along with Mr. Anil Ganapati Kabre and Mr. Shantanu Ramesh Kabre. The promoters have an experience of four decades in the business of processing, refining and preservation of edible oils. 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:

The company sells soyabean oil and other allied products under the brand name "Rich Soya", "Rich Sun" and "Silver Gold" which is well established in Maharashtra and Madhya Pradesh. This provides a competitive edge to the company against unorganized players.

Location specific benefits with strong procurement network:

The major raw materials used in the refining process are the raw oil and the chemicals used in the process of refining the oil. The raw material is procured mainly from the nearby areas in Maharashtra such as Akola, Latur, Dulia, and Parali Vaijanath during the season. Also, the company procures imported raw material (de-gum Soyabean oil) from bulk dealers during the off season. The company has established a network spread across the state of Maharashtra catered by over 225 dealers and distributors, distributing its products throughout the state. These agents then distribute the products to the numerous retailers spread across the length and breadth of Maharashtra.

Continuous improvement in business performance:

The total operating income of the company witnessed healthy growth over the past three fiscals from Rs. 336.95 crore in FY21 to Rs. 629.12 crore in FY23 driven by significant improvement in its sales volume and average sales realisation of edible oil. Moreover, the trading sales of the company also increased over the past three years which also aided in the growth in revenue. With rise in total operating income, profit levels of the company have also improved gradually over the past three fiscals. The EBITDA margin of the company improved over the past three fiscals and remains in the range of ~3.10%-4.42%. In FY23, the EBITDA margin is improved mainly due to increase in volume sale and better sales realisation along with rise in scale of operation in manufacturing segment. Further, the PAT margin also remains satisfactory at 2.28% in FY23 (2.30% in FY22) on the back of rise in absolute EBITDA. Further, the gross cash accruals of the company remain comfortable at Rs.14.26 crore in FY23.

Moderate capital structure and debt protection metrics

The capital structure of the company remained comfortable marked by the debt equity ratio and overall gearing ratio on adjusted tangible net worth stood comfortable at 0.19x and 0.57x respectively as on March 31,2023 (0.20x and 0.71x respectively as on March 31, 2022). The net worth (including subordinated unsecured loan from director) of the company stood at Rs. 82.62 crore as on March 31, 2023, including unsecured loans aggregating to Rs.30.11 crore. Further, total indebtedness of the company also remained comfortable marked by TOL/TNW (including unsecured loan from director) at 0.87x as on March 31,2023. The debt protection metrics of the company as indicated by interest coverage ratio remain comfortable at 3.72x in FY23 vis-a-vis 4.40x in FY22. Further, Total debt to EBITDA remains comfortable at 2.78x in FY23 vis-a-vis 2.86x in FY22. Total debt to GCA also remained comfortable at 5.03 years as on March 31, 2023.

Key Rating Weaknesses

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 many 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. SVRL is also exposed to the risks emerging from geo-political issues due to its reliance on import of raw materials.

Geographical concentration risk:

The revenue profile of the company is geographically concentrated with significant proportion of revenue being generated over the years from the state of Maharashtra and Madhya Pradesh.

Risk associated with the new expansion project:

The company has proposed to set up a new project for expansion of the capacity from 100MTPD to 300MTPD. The total cost of project is estimated at Rs. 36.06 crore which is proposed to be financed by debt of Rs. 25.00 crore and internal accrual of Rs. 11.06 crore. The debt has not been tied up. The project is proposed to be completed by December 2024. Timely completion of the project within envisaged cost will be important.

Analytical Approach: Standalone Approach

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of Rating Outlook | Infomerics Ratings

Criteria of Default Recognition

Liquidity –Adequate

The liquidity of the company appears to be adequate marked by its sufficient cash accruals vis-à-vis its debt repayment obligations in the near to medium term. The current ratio was also comfortable at 2.40x as on March 31, 2023. The average working capital utilisation remained high at 73% during the past twelve months ended February 2024 indicating adequate liquidity buffer.

About the company:

Incorporated on February 28, 2003, Shri Venkatesh Refineries Limited (SVRL), located at Umarde, Jalgaon, Erandol, Maharashtra was initially promoted as a private limited company by Mr. Dinesh Ganapati Kabre, Mr. Ramesh Ganapati Kabre and Mr. Anil Ganapati Kabre. Initially, the company started with manufacturing & marketing of Soyabean oil and their by-products in Jalgaon, Maharashtra. The constitution of the company later converted into a public limited Company since December 30, 2020.

At present, the company is primarily engaged in the business of processing, refining and preservation of Edible oils mainly soyabean oil and cotton seed oil.

The company is operating with refining capacity of 36000 tons per annum. Apart from the refining of edible oil, the company is also engaged in the business of trading of edible oil mainly soyabean oil, cotton seed oil and palm oil. The company is selling its edible oil in Maharashtra region under the brand name “Rich Soya”, “Rich Sun” and “Silver Gold”.

Financials (Standalone):

(Rs. Crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	611.95	629.12
EBITDA	25.66	27.78
PAT	14.07	14.34
Total Debt	73.36	77.22
Tangible Net worth	39.27	52.50
Ratios		
EBITDA Margin (%)	4.19	4.42
PAT Margin (%)	2.30	2.28
Overall Gearing Ratio (x)	1.87	1.47

* *Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Nil

Sr. No.	Name of Instrument/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	7.68	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)			
2.	Cash Credit	Long Term	85.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)			
3.	Proposed	Long Term	67.32	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)			

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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).

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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.

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	-	-	-	7.68	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)
Cash Credit	-	-	-	85.00	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)
Proposed	-	-	-	67.32	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)

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

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-ShriVenkatesh-may24.pdf

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