



## Press Release

### Modi Naturals Limited

January 29, 2025

#### Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	55.00	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Rating Upgraded	Simple
Short Term Bank Facilities	10.00	IVR A3 (IVR A Three)	IVR A4+ (IVR A Four Plus)	Rating Upgraded	Simple
<b>Total</b>	<b>65.00</b> <b>(INR Sixty-five crore only)</b>				

**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

For arriving at the ratings, Infomerics Ratings has considered the consolidated financials of Modi Naturals Limited (MNL). MNL has one wholly owned subsidiary namely Modi Biotech Private Limited (MBPL).

The upgrade in the ratings assigned to the bank facilities of MNL is driven by strong business performance of the company in H1FY25 [FY refers to the period from April 01 to March 31] underpinned by improved profitability leading to satisfactory debt protection metrics with comfortable capital structure. Further, the ratings continue to derive strength from its experienced promoters, presence of established brand with strong marketing and selling networks coupled with locational advantage of the ethanol plant under MBPL. The ratings also factor favourable policy initiatives by the Union Government to boost up the Ethanol Blended Petrol (EBP) programme.

However, these rating strengths remain constrained by the vulnerability of profitability to fluctuations in prices with exposure to agroclimatic risks and exposure to government regulations and risk of termination of offtake agreement. The rating strengths also remain partial offset owing to the intense competition in the edible oil industry resulting in thin operating margin coupled with the project execution and stabilisation risk in capacity expansion of the ethanol plant.



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The Stable outlook reflects expected steady business performance of the company underpinned by the strong revenue visibility from the subsidiary engaged in the ethanol segment and its resourceful and experienced promoters.

### **Key Rating Sensitivities:**

#### **Upward factors**

- Sustained revenue growth with improvement in profitability metrics thereby leading to improvement in cash accruals on a sustained basis
- Improvement in the capital structure with improvement in overall gearing to below 1x and sustenance of interest coverage ratio to over 4.5x.
- Improvement in working capital management with improvement in liquidity

#### **Downward Factors**

- Decline in revenue and/or moderation in profitability leading to deterioration in debt protection metrics on a sustained basis
- Any unplanned debt funded capex and/or substantial increase in working capital borrowings leading to impairment in capital structure with adjusted overall gearing ratio moderated to over 2x and/or moderation in interest coverage to below 2x
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables impacting the 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 from 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, and Oleev Kitchen Peanut Butter and



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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. Further, the company has widely distribution network with presence of 3,000 organized modern retail outlets and has around 450 distributors pan India with a direct reach of about 50,000 retail stores, which will be used to penetrate further in healthy snacking foods category. Recently, the Company has started food business with a few more large retail players like Spencer's which will reflect in numbers in the coming quarters.

### **Locational advantage of Ethanol plant**

The manufacturing facilities of MBPL is in Raipur District of Chhattisgarh. 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.

### **Improvement in business performance in H1FY25 with improved profitability**

A significant fall in edible oil prices in the bulk oil division, which has led to inventory losses coupled with higher than anticipated stabilization time in the ethanol plant has led to moderation in topline of MNL (Consolidated) in FY24 to Rs.399.82 crore from Rs.417.96 in FY23. Despite the moderation in scale of operation, backed by effective cost management, superior product mix in the branded oil division, along with the inclusion of ethanol in the product folio from the last quarter of FY24, MNL has posted better operating margin of 2.27% in FY24 as compared to 1.20% in FY23. However, on account of increase in depreciation and higher finance cost, the company has reported net loss of Rs. 1.38 crore in FY24 though there was no cash loss, and the company has achieved a gross cash accrual of Rs.1.99 crore. From April 2024, the ethanol plant under the wholly owned subsidiary Modi Biotech Private Limited is operating in optimum capacity which has led to improvement in scale and profitability in the present fiscal. In H1FY25, MNL has generated operating revenue of Rs.294.21 crore which is ~75% of FY24 revenue with PAT of Rs.15.04 crore as compared PAT of Rs (1.38 crore) in full year of FY24.

### **Comfortable capital structure with satisfactory debt protection metrics**

MNL (Consolidated) had a comfortable net worth base of Rs.87.28 crore (after adjusting disputed receivable of ~Rs.3.32 crore) as on March 31, 2024. Owing to rise in the debt level to set up the 130 KLPD grain-based ethanol distillery in the subsidiary i.e. MBPL, coupled with higher working capital utilisation, the capital structure of MNL has moderated in FY24. The adjusted overall gearing has moderated yet remained satisfactory at 1.94x on March 31,



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2024, against 1.82x as on March 31, 2023. Total indebtedness marked by TOL/ATNW also deteriorated from 2.31x as on March 31, 2023 to 2.47x as on March 31, 2024. However, driven by steady accretion of profit to reserve underpinned by the fully operational ethanol plant in FY25, both overall gearing and TOL/ATNW has improved and stood at 1.43x and 1.89x respectively supported by improved net worth of ~Rs.105.64 crore as on September 30, 2024. However, in view of the majorly debt funded planned capacity enhancement capex in MBPL, the capital structure is expected to be moderated going forward.

With moderation in topline coupled with inventory loss, the absolute EBITDA in FY24 has moderated. Further, with increase in finance cost, the debt protection metrics marked by interest coverage ratio has deteriorated and stood at 1.17x as on March 31, 2024. In H1FY25, with improved business performance, ISCR has improved to 4.26x.

### **Policy initiatives by the Union 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. Further, the Union government has recently reduced the reserve price of FCI rice under the Open Market Sale Scheme (OMSS) for states and ethanol producers to boost sales and support food security measures. This is expected to effectively reduce the cost of production and improved the operating margin of the company.

### **Key Rating Weaknesses:**

#### **Vulnerability of profitability to fluctuations in prices, exposure to agro-climatic risks**

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.

#### **Exposure to government regulations and risk of termination of offtake agreement**

Ethanol production and demand from OMC's are highly dependent on government regulations. This apart, as per the offtake agreement with OMCs, the principle can terminate



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its agreement by 30 days' notice if the supplier fails to supply in time or operate the business and any adverse changes in current law/directives comes from Government.

### **Project execution and stabilisation risk in capacity expansion**

MBPL has successfully commissioned the phase one of its ethanol plant with installed capacity of 130 KPL in December 2023. Further, the management is going for the capacity expansion of 180 KLPD which once executed, would run at an installed capacity of 310 KLPD. The tentative project cost of the capacity expansion is ~Rs.117 crore which is expected to be funded by Term loan of ~Rs.96 crore and rest through a combination of internal accrual and unsecured loan. Financials closure is yet to be achieved. However, initial phase of work is already started through the own funds of the company. Timely execution and stabilisation of the capex is going to be the key monitorable which would eventually improve the scale and profitability.

### **Intense competition in the edible industry resulting 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.

### **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, MNL has also extended corporate guarantee to the bank facilities of MBPL. The lists of companies considered for consolidation are given in

### **Annexure 4.**

### **Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Criteria of assigning Rating Outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

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

[Criteria on Complexity](#)

[Criteria for Consolidation](#)

### **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 sufficient cash accruals on a consolidated basis which is





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expected to be sufficient to meet its debt obligations during FY25-FY27. Besides, the company has an adequate gearing headroom marked by overall gearing at 1.43x as of September 2024. Further, the average working capital utilization of the company remained moderate at ~65-70% 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 Sonapat, Haryana. During FY22, the company incorporated a wholly owned subsidiary, Modi Biotech Private Limited. Modi Biotech Private Limited has setup a 130 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 December 2023.

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

**(Rs. crore)**

<b>For the year ended* / As On</b>	<b>31-03-2023</b>	<b>31-03-2024</b>	<b>30.09.2024</b>
	<b>Audited</b>	<b>Audited</b>	<b>Unaudited</b>
Total Operating Income	417.96	399.82	294.21
EBITDA	5.03	9.07	26.61
PAT	1.07	-1.38	15.04
Total Debt	142.50	169.53	146.09
Tangible Net worth	81.72	90.60	105.64
Tangible Net worth (Adjusted)	78.40	87.28	102.32
EBITDA Margin (%)	1.20	2.27	9.05
PAT Margin (%)	0.25	-0.34	5.09
Overall Gearing Ratio (x) (Adjusted)	1.82	1.94	1.43
Interest Coverage	1.50	1.17	4.26

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** CARE Edge Ratings has continued the rating under Issuer not co-operating category vide press release dated June 10, 2024, due to non-cooperation from the company.

**Any other information:** Nil

**Rating History for last three years:**



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Feb 21, 2024	Jan 04, 2024	-	-
1.	Cash Credit	Long Term	55.00	IVR BBB-/ Stable	IVR BB+/ Stable	IVR BB+/ Positive	-	-
2.	Letter of Credit/ Bank Guarantee	Short Term	10.00	IVR A3	IVR A4+	IVR A4+	-	-

### Analytical Contacts:

Name: Avik Podder

Tel: (033) 46022266

Email: [apodder@infomerics.com](mailto:apodder@infomerics.com)

### 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 and definition of ratings please visit [www.infomerics.com](http://www.infomerics.com).



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### Annexure 1: Instrument/Facility Details

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 BBB-/ Stable
Short Term Non-Fund Based Limits – LC/ Bank Guarantee	-	-	-	10.00	IVR A3

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-modi-naturals-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:

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

**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)