Mantora Oil Products Private Limited (Revised)

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short Term Bank Facilities	40.00	CARE A3+ (A Three Plus)	Assigned
Total Bank Facilities	**75.00 (Rs. Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mantora Oil Products Private Limited (MOPPL) derive strength from the experienced promoters and long track record of operations alongside diverse product portfolio with established brand presence. The ratings favourably factor in large scale of operations along with comfortable financial risk profile and debt coverage indicators along with positive stimulus by the GOI towards edible oil sector. However, the ratings are constrained by modest profitability margins, volatility in raw material price with foreign currency fluctuation risk and intense competition in edible oil sector.

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- *Sustainable improvement in the total operating income, thereby leading to PBILDT margin of more than 5%.*

Negative Factors- Factors that could lead to negative rating action/downgrade:

- *Decline in the scale of operations, thereby leading to PBILDT margin of less than 3%*
- *Substantial increase in the operating cycle days, thereby leading to stretch in the liquidity with current ratio below 1.33x.*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations

MOPPL has been promoted by Mr. Jagdish Prasad Gupta in 1984 and since then expanded the operations with total operating income increasing to Rs. 3,915.25 cr. in FY21. The promoter of the company has a degree in M.Sc. in Chemistry and experience in chemical and physical refining. The promoter is assisted by his son and two brothers in looking after the entire activities of the company.

Diverse product profile

The company derived a major part of its revenue from trading products through high sea sales. These primarily included crude soya bean oil and palm oil, which contributed ~54% to the total gross sales during FY21 (PY: ~33% was contributed by crude soya bean oil and RBD Palmolien Oil). Further, the company has a diversified product profile with manufacturing sales of various types of refined oils and ghee with major ones being refined palmolien oil, refined rice bran oil, refined soya bean oil, refined palm oil and Vanaspati. These were the top-5 revenue contributors in FY21 and accounted for ~46% of the total gross sales (PY: ~67% of total gross sales). Apart from this the company also sells De-oiled Cake, which is a by-product of the solvent extractor and is popular as cattle feed.

Large scale of operations

The total operating income of the company stood at Rs.3,915.25 crore during FY21 (UA), thereby increasing from Rs.2105.07 crore in FY20 and the same has been due to substantial rise in the raw material prices which the company has been able to pass on to some extent to the end consumer. However, the contribution higher from trading segment as the production and sales volumes have remained stagnant over the past few years.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

5MFY22 Performance (refers to period from April 01 to August 31): The company significant y-o-y growth of around 61% with total sales of Rs.2,030 crore during 5MFY22 (5MFY21: Rs.1,258 crore).

Comfortable financial risk profile

The company primarily relies on its LC limits as well as working capital borrowings to meet its working capital requirements. The debt profile includes Rs.438.76 crore (82% of total debt) as letter of credit (of which Rs. 426.97 crore is backed by 100% FD margin under lien with the banks, while the balance Rs.97.47 crore is towards CC, term loan (including vehicle loan and PICUP loan), inter-corporate deposits and unsecured loans from promoters). Therefore, excluding the FD backed acceptances, the total debt of the company stood at Rs.97.47 crore as on March 31, 2021 (PY: Rs.101.73 crore). The overall gearing ratio (excluding the FD backed acceptances) stood at 0.20x as on March 31, 2021 (PY: 0.27x).

The debt coverage indicators of the company improved with interest coverage and total debt/GCA of 14.34x and 0.80x as on March 31, 2021 respectively (PY: 3.57x and 2.96x respectively).

Positive stimulus by the GOI

Government of India (GOI) has recently announced a new scheme on palm oil, 'National Mission on Edible Oils – Oil Palm (NMEO-OP)' to curtail the country's high reliance on imports. The mission aims to increase the area under cultivation of palm oil crops through additional coverage of 6.5 lakh hectares from 3.7 lakh hectares that is under palm oil cultivation currently. This will help in achieving a target of 10 lakh hectares till 2029-30. Increase in area under cultivation is projected to lead to an increase in the production of crude palm oil to 11.2 lakh tonnes and 28 lakh tonnes by 2025-26 and 2029-30 respectively.

GOI has reduced the custom duties on both crude and refined variants of palm, soya bean and sunflower oils in order to control the surging edible oil prices, thereby bringing down the retail prices by Rs.4-5 per litre. With effect from September 11, 2021, the base import tax on crude palm oil has been reduced to 2.5% from 10%, thereby bringing the effective duty down to 24.75% from 30.25% whereas on refined palm oil to 31.75% from 41.25% allowed with immediate effect from 30th June, 2021 to 31st December, 2021. All these measures helped reduce the pressure on prices and supported in the reduction in domestic prices of crude palm oil in June 2021.

Key Rating Weaknesses

Modest profitability margins

Being into a highly competitive industry with increasing revenue from trading of products over the years and lower value addition, the profitability margins of MOPPL remain squeezed. However, the same improved during FY21 and stood at 4.43% (PY: 3.62%) as the company recorded significant profit on exchange rate transactions. Also, the interest income of the company increased as the company has invested into high return generating debt mutual funds. Further, the PAT margin also improved and stood at 3% during FY21 (PY: 1.91%) with substantial reduction in the interest expenses from Rs.21.30 crore in FY21 to Rs.12.08 crore in FY21. A shift from fund-based working capital limits to predominantly non-fund based working capital funding also contributed towards reduction in the interest cost.

Raw material price volatility

Raw material prices in the edible oil industry are volatile due to various factors such as exchange rate movements and changes in the demand-supply scenario. The company does not have any hedging mechanism for the volatility in the raw material prices, however, MOPPL's selling and distribution arrangements allow it to pass on a portion of the increased raw material costs to its customers.

Foreign currency fluctuation risk

Majority of the company's raw material requirement are met through imports, whereas all of its sales are domestic. During FY21, the company had total imports of ~Rs.1,267 crore as against Rs.731 crore in FY20. Further, the company reported foreign exchange gain of Rs.11.82 crore during FY21 (PY: Rs.0.01 crore). MOPPL has a policy of hedging by entering into forward contracts with its respective banks with the help of which the company is able to hedge only around 25 to 50% of the total exposure. The exposure to foreign exchange fluctuation risk along with commodity risk keeps the profitability of the company susceptible to volatility. The operational cash flow from operations owing to this have also been widely fluctuating in the past.

Intense competition in edible oil sector

Edible Oil sector in India has huge import dependence due to demand supply mismatch. Thus, the edible oil companies face competition not only amongst themselves but from imports as well. Some of the major players in India are Marico Group, Adani Wilmar, Agro Tech Foods Limited, and Mother Dairy etc. Kanpur, which is the niche market of the company, has the presence of other players as well such as Kanpur Edible Oils Pvt. Ltd.

Industry prospects

As per CARE Research Report, the domestic production of edible oils is able to meet only a part of the country's edible oil demand and hence India is dependent on imports for around 2/3rd of the demand. Amongst edible oil imports, palm oil accounts for a substantial share of around 60% to 65% and is mostly imported from the South-East Asian countries of Malaysia and Indonesia. For instance, during FY21 (refers to financial year 2020-21), India imported crude palm oil (CPO) of about 74 lakh tonnes worth around Rs.420 Billion. India also imports other varieties of palm oil such as crude palm kernel oil (CPKO) and refined palmolien. In terms of volume, for the current oil year starting November 2020, the total palm related import volume was 56 lakh tonnes till July 2021 as per the Solvent Extractors' Association of India (SEA).

Liquidity: Adequate

Liquidity of MOPPL remained adequate marked by healthy gross cash accruals of Rs.122.56 crore in FY21 with miniscule long-term debt repayment pertaining to vehicle loans. As per provisional figures on March 31, 2021, the company had free cash and bank balance of Rs.44.59 crore and liquid investment in mutual funds to the tune of Rs.62.89 crore. Although, the fund-based limits remained sparingly utilized supported by current ratio of 1.43x as on March 31, 2021 (PY: 1.62x), the average utilization of non-fund-based limits remained at around 71% for the trailing twelve months ending August, 2021. The company imports crude palm oil against LC, which stood at Rs.438.76 crore as on March 31, 2021 and the same is backed by 100% FDR margin. The operating cycle of the company reduced from 13 days in FY20 to -1 day in FY21 owing to faster realizations from inventory and debtors with relatively lower reduction in creditor days as major proportion of the same are backed by LC having usance period of 90 days which can further be extended to 180 days. During FY21, the company generated cash flow of Rs.163.57 crore from operating activities as against Rs.210.03 crore in FY20.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Wholesale Trading

About the Company

Mantora Oil Products Private Ltd. is a flagship company of Mantora group and is based at Kanpur. It is promoted by Mr. Jagdish Prasad Gupta, who, is a Post-Graduate with Science & has an expertise in chemical and physical refining. The company is engaged in manufacturing and trading of edible oils. The company is into the manufacture (contributed 46% to total gross sales in FY21; PY: 67%) as well as trading of goods (contributed 54% to the total gross sales in FY21; PY: 33%). Products are sold under the Bawarchi, Queen, Sarsona, and Sarso-active brands. Currently the company has an annual production capacity of 4,35,000 MTPA.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov.)
Total operating income	2,105.23	3,915.25
PBILDT	76.13	173.27
PAT	40.24	117.46
Overall gearing (times)	0.27	0.20
Interest coverage (times)	3.57	14.34

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: - Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (04-Apr-18)
2	Non-fund-based - ST-ILC/FLC	ST	-	-	-	-	-	1)Withdrawn (04-Apr-18)
3	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB; Stable				
4	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A3+				

** Long Term / Short Term*

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Fund-based Limits	• **Debt service coverage ratio:** Company shall at all times maintain debt service coverage ratio of 1.75x • **Interest Coverage Ratio:** Company shall at all times maintain Interest Coverage ratio of 2x. • **Debt/EBITDA** should less than equal to 3.60x as per ABS of FY21
B. Non-financial covenants	
I. Cash Credit	Statement of stock and book debts, on a monthly basis, to be submitted latest by the 20th of subsequent month. **Note:** The utilization in CC will be determined by Drawing Power on the basis of monthly stock statements submitted. *The computation drawing power would be as follows:* Raw material (including stock in progress and Finished goods) - 25% Receivables (Cover Period- 30 days)- 40%

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Sachin Mathur
Contact no.: +91-11-45333206
Email ID: sachin.mathur@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**