Modi Naturals Limited

January 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	55.00	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	10.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Modi Naturals Limited (MNL) derive strength from established name of 'Oleev' in domestic edible oil market and company's diverse product portfolio of edible oils and FMCG products. The ratings factors in company's growing scale of operations with average financial risk profile marked by a moderate overall gearing and debt coverage indicators. The ratings also draw comfort from the experienced promoters with long track record of operations and company's integrated manufacturing facilities. However, ratings are constrained by fluctuation in raw material prices and forex fluctuation risk coupled with intense competition in edible oil sector. The ratings are constrained by project risk related to the MNL's wholly owned subsidiary, Modi Biotech Private Limited (MBPL) and committed cash accruals for the new project of setting up ethanol manufacturing plant based out of Chhattisgarh.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the total operating income with PBILDT margin of more than 5%.
- Efficient working capital management on sustained basis while maintaining debt metrics at current levels

Negative factors

- Decline in the scale of operations, thereby leading to PBILDT margin of less than 2%
- Any time or cost overrun in the project under MBPL impacting the cash accruals/liquidity of the company.
- Adverse regulatory changes having significant impact on the operations/ financials of the company

Analytical approach: Consolidated. CARE has taken into account the financials of MNL's 100% subsidiary MBPL.

Key strengths

Experienced promoters and established brand name

MNL 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. The long-standing experience of Mr. Anil Modi strengthens decision making process of the company and its future plans. He is supported by Mr. Akshay Modi (Joint Managing Director) who is an Engineer from the University of Leeds, U.K and an alumnus of The Doon School. He is a visionary entrepreneur who conceptualized the launch of Edible Oils in consumer packs under the brand names, 'Oleev', 'Tarai', 'Rizolo', 'Miller' and 'Olivana wellnesses' which has established market presence in the domestic market. Mr. Akshay Modi has an experience in the FMCG sector in the fields of project execution, Business Planning and Development, management, Marketing, corporate strategic planning, Customs & Excise, business development, as well as in Government and Regulatory affairs relating to the FMCG Industry.

Diverse product profile and customer base

Over four decades of presence in the edible oil industry, the company has been able to develop a healthy mix of product portfolio with significant revenue contribution from processing of by-products. The company derives majority of its revenue from edible oils division which contributes around 80% of the total operating income. Further, the company has a diversified product profile with manufacturing sales of various types of refined oils with major ones being refined rice bran oil, olive oil, and canola oil. The company has also launched fast moving consumer goods (FMCG) like Popcorn, pasta, etc. Apart from this the company also sells De-oiled rice bran oil cakes, which is a by-product of the solvent extractor and is popular as cattle feed. The company also has a diversified customer base since top 10 customers contributed around 26.03% of total operating income during FY22.

Growing scale of operations albeit low profitability margins

The total operating income of the company stood at Rs.475.75 crore during FY22, thereby recording growth at a CAGR of ~11% over FY18. The same has been primarily driven by substantial increase in the sales of edible oils coupled with better sales realisations. The growth in total operating income was also supported by new products and brands launched by company

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

is past few years for different edible oils and FMCG products. Further, the profitability margins of MNL remained low owing to presence in a competitive industry coupled with higher promotion and advertising expenses. However, PBILDT margin of the company improved during FY22 and stood at 3.26% (PY: 2.94%) owing to better sales realisations from edible oils. However, PAT margin of company moderated during FY22 to 1.97% as against 2.37% during FY21 mainly on account of higher interest cost due to increase in working capital utilisation coupled with deferred tax adjustment during FY22 resulting in slightly lower PAT compared to FY21. Further, during FY21, company had a profit of Rs. 3.26 crores from sale of fixed asset which also resulted in better PAT margin during FY21.

Average financial risk profile
MNL has a average financial risk with moderate debt coverage indicators marked by moderate overall gearing and healthy debt coverage indicators. The overall gearing of company on consolidated level moderated and stood at 0.66x as on March 31, 2022 (PY: 0.30X). Moderation was mainly due to increase in total debt due to higher working capital borrowings as on March 31, 2022. The higher utilisation was due to increase in edible oils prices thereby resulting in higher working capital requirements. However, moderation in overall gearing was supported by increase in tangible net worth of company owing to accretion of profits to net worth. The interest coverage ratio improved slightly and stood at 8.96x during FY22 (PY: 8.73x) owing to better profitability. However, owing to increase in total debt, total debt to gross cash accruals moderated and stood at 4.98x as on March 31, 2022 as against 1.54x as on March 31, 2021. Going forward, debt coverage metrics of the company is expected to moderate further owing to additional proposed term debt to be availed in the wholly owned subsidiary, MBPL for the ongoing capex related to 110 KLPD grain-based ethanol distillery along with 5.5 MW captive power generation plant in Chhattisgarh.

Key weaknesses

Raw material price volatility risk
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. However, MNL’s selling & distributing arrangements in business-to-business segment (B2B) allow it to pass on a portion of the increased raw material costs to its customers. Further, long term association with the suppliers and presence in the rice producing belt of Uttar Pradesh, mitigates the said risk to some extent. The company also sells under its own brand names which have established market presence and wherein company focuses on selling its products at a premium pricing, thereby safeguarding company to any major movement in the edible oil prices.

Foreign exchange fluctuations risk
Company imports around 5-6% of its raw material requirements and thereby exposing it to foreign exchange fluctuation risk. Company also exports around 1% of its total operating income, providing the company a natural hedge to some extent. The balance forex exposure remains unhedged. However, net foreign exchange exposure of the company remains miniscule, thereby not having major impact on the profitability of the company.

Project Risk arising out of the sizeable capex plans
Under dedicated ethanol plant scheme, management is setting-up Ethanal based plant under MBPL having envisaged capex of ~Rs. 132 crore against which is being financed by a term loan for 75% of the total project cost and remaining will be funded through internal accruals. The projected is scheduled to start the commercial operations by July 2023, however, management is focused for early start of operations during Q4FY23 (refers to period January 1 to March 31). The ability of the company to complete the project without any cost or time over run along with stabilization and streamlining of revenues will remain a key monitorable.

Liquidity: Adequate

The liquidity profile of the company is adequate as reflected by nil scheduled repayments during FY23. The average utilization of working capital limits stood at ~50% for the trailing 12 months ended December 2022. The company is projected to incur a capex of around Rs. 140 crores in FY23 and FY24 which shall be funded through internal accruals and term debt of around Rs. 104 crores. The operating cycle of the company also stood moderate at 71 days as on March 31, 2022 (PY: 70 days). The current ratio of company also stood at comfortable level at 1.59x as on March 31, 2022 (PY: 2.05x)

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Manufacturing Companies

About the company

Modi Naturals Limited was founded in 1974 by Mr. D. D. Modi of the Modi Group and was previously known as Anil Modi Oil Industries Limited which was changed to MNL in 2009. The company manufactures de-oiled cakes, rice barn oils, other oils, etc. MNL has four production facilities in India. Broadly, Edible Oil products are manufactured at factories situated in Uttar Pradesh & Telangana regions. Out of four manufacturing facilities, two units are located at Pilibhit (Uttar Pradesh), one unit in Hyderabad (Telangana), and one in Sonipat (Haryana) for manufacturing of all variants of edible oil and other food products. The company sells majorly in its own brands namely, Oleev, Tarai, Rizolo, Miller and Olivana wellness etc. Modi Naturals is a Bombay Stock Exchange listed company.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	442.79	474.75	194.10
PBILDT	13.03	15.52	7.11
PAT	10.52	9.40	3.37
Overall gearing (times)	0.30	0.66	-
Interest coverage (times)	8.73	7.83	3.84

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	55.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	10.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	55.00	CARE BBB-; Stable	-	-	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

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

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