Modi Naturals Limited

December 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	55.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	10.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Modi Naturals Limited to monitor the rating(s) vide e-mail communications/letters dated August 01, 2023, September 12, 2023, September 22, 2023, September 29, 2023, October 09, 2023, October 11, 2023 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, Modi Naturals Limited has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Modi Naturals Limited bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings take into account deterioration in financial performance in FY23 (refers to the period from April 01, 2022 to March 31, 2023) on account of decline in edible oil (key raw material for MNL) prices leading to high inventory loss and subsequent substantial decline in profitability margins. The ratings also take into consideration deterioration in the financial risk profile marked by higher than envisaged overall gearing ratio and decline in interest coverage ratio. Further, the ratings continue to remain constrained on account of exposure of the company to fluctuation in raw material prices, forex fluctuation risk coupled with intense competition in edible oil sector, and timely completion and start of commercial production of ethanol project related to MNL's wholly owned subsidiary, Modi Biotech Private Limited (MBPL). However, the ratings continue to 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 also draw comfort from the experienced promoters with long track record of operations and company's integrated manufacturing facilities.

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

Outlook: Stable

Detailed description of the key rating drivers

At the time of last rating on June 08, 2023, the following were the rating strengths and weaknesses (updated for the information available from stock exchange.

Key weaknesses

Decline in financial performance in FY23: The total operating income at consolidated level declined by ~12% to Rs.417.96 crore (PY: Rs.474.75 crore) in FY23 driven by lower sales realization as a result of decline in edible oil prices. Further, the PBILDT margin and consequently the PAT margin at consolidated level declined substantially to 1.25% (PY: 3.26%) and 0.26% (PY: 1.97%) in FY23 largely driven by inventory losses. The company has incurred cash losses during Q4FY23 (refers to the period from January 01, 2023 to March 31, 2023). Going forward, the ability of the company to manage fluctuation in edible oil prices would remain a key monitorable. H1FY24: total operating income at consolidated level declined to Rs.175.73 cr (H1FY23: Rs.194.10 cr) and PBILDT margin and consequently the PAT margin at consolidated level declined substantially to 2.81% (H1FY23: 3.66%) and 1.05% (H1FY23: 2.31%).

Weak financial risk profile: The overall gearing at consolidated level deteriorated substantially to 1.92x as on March 31, 2023 (PY: 0.66x) which is higher than the envisaged levels on account of term debt availed in the wholly owned subsidiary, MBPL

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

for the ongoing capex related to 110 KLPD grain-based ethanol distillery along with 5.5 MW captive power generation plant in Chhattisgarh. The debt coverage metrics at consolidated level also deteriorated as reflected by PBILDT interest coverage and total debt/GCA of 1.48x (PY: 7.83x) and 61.82x (PY: 4.99x) in FY23 respectively. H1FY24: the overall gearing at consolidated level stood at moderate level of 1.78x 1.92x as on March 31, 2023.

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. However, during FY23, there was a sharp decline in edible oil prices leading to inventory losses and the same was not fully passed on to the 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 to an extent.

Project Risk arising out of the sizeable capex plans: Under dedicated ethanol plant scheme, management is setting-up Ethanol plant under MBPL having envisaged capex of ~Rs.140.00 crore which is being financed by a term loan (~75%) and remaining through equity infusion (~9%) (from parent company MNL), unsecured loans (~13%) (from promoters), and internal accruals (~3%). Till May 31, 2023, capex to the tune of ~Rs.132.00 crore has been incurred on the project with section wise trials already under process and production expected to begin before June 30, 2023. 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.

Competitive industry landscape: The edible oil industry is highly competitive with presence of both large national players and multiple regional players. Along with logistics and supply chain capability, the large integrated players have a sizeable oil processing and packaging scale with wide distribution network. Thus, profitability is inherently low and is further exposed to movement in prices of raw material, finished goods and other substitutes. However, with increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase which bodes well for branded refined oil players.

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 experience in the FMCG sector in the fields of project execution, business planning and development, management, marketing, corporate strategic planning, Customs & Excise, 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 (refers to the period from April 01 to March 31).

Liquidity: Adequate

The liquidity position at consolidated level is adequate as reflected by projected gross cash accruals to the tune of Rs.21.48 cr in FY24 against scheduled term loan repayments of only Rs.5.24 cr in FY24. Further, average utilization of working capital stood ~80% for the trailing 12 months ended May 31, 2023. At consolidated level there was free cash and bank balance of Rs.4.09 cr as on March 31, 2023.

Applicable criteria

[Policy in respect of Non-cooperation by issuer]
[Policy on default recognition]
[Consolidation]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Edible Oil

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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	474.75	417.96	175.53
PBILDT	15.52	5.22	4.93
PAT	9.37	1.09	1.84
Overall gearing (times)	0.66	1.92	1.78
Interest coverage (times)	7.83	1.48	2.13

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	55.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-BG/LC		-	-	-	10.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	55.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BB+; Stable (08-Jun-23)	1)CARE BBB-; Stable (18-Jan-23)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	10.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	1)CARE BB+; Stable / CARE A4+ (08-Jun-23)	1)CARE BBB-; Stable / CARE A3 (18-Jan-23)	-	-

*Issuer did not cooperate; based on best available information.
*Long term/Short term.

Annexure-3: Detailed explanation of 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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