Manorama Industries Limited

January 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	74.90	CARE A-; Stable	Assigned
Long-term bank facilities	325.00 (Enhanced from 50.00)	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Manorama Industries Limited (MIL) continue to derive strength from the experienced promoters with a professional management team and the established procurement network, giving it a competitive edge in sourcing raw materials. The ratings also consider the company's reputed and diversified customer base across the globe, its global certifications and accredited products, the continuous increase in MIL's scale of operations while maintaining stable profitability margins, and the comfortable debt protection metrics.

CARE Ratings Limited (CARE Ratings) notes the successful completion of the solvent extraction plant, refinery plant, storage tanks and warehouse, except the fractionation plant, which is expected to become operational shortly.

The ratings are constrained by the working capital-intensive nature of operations due to the seasonal nature of raw materials sourcing, foreign exchange fluctuation risk, and the exposure to changes in government regulations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations, resulting in a total operating income (TOI) of more than ₹1,000 crore along with improvement in the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to more than 18%.
- Improvement in the capital structure, marked by an overall gearing of a sustained less than 0.25x.

Negative factors

- Substantial dip in the TOI below ₹300 crore and PBILDT margin below 12%, respectively, on a sustained basis.
- Higher-than-envisaged capex, leading to moderation in the capital structure, marked by a sustained overall gearing of more than 1x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that MIL will continue to benefit from the extensive experience of its promoters and expects the company's scale of operations to increase in the near term with improvement in the operating margins, given the expected completion of its fractionation unit shortly.

Detailed description of the key rating drivers

Key strengths

Established procurement network

The company's business model is entirely nature-based and it sources entire raw materials from forests. The cocoa butter equivalent (CBE) and fractionated fats and butter supplied by MIL is made from the extracts of tree-borne seeds such as sal, mango, kokum, mahua, shea, etc. MIL sources tree-borne seeds and plant-based seeds from millions of tribal and forest dwellers, mainly womenfolk across thousands of villages in India (primarily in Chhattisgarh, Madhya Pradesh, and Maharashtra), and West Africa directly through multiple collection centres. The company has tie-ups with thousands of collection centres in India to help it procure sal seeds and mango kernels, among others. The network being extensive in nature benefits the company and ensures adequate availability. Furthermore, shea nuts are procured from the Savannah forests in West Africa. MIL's well-established supply chain gives it a competitive edge over its competitors.

Reputed and diversified customer base across the globe

MIL derives the majority of its revenue from the sale of CBE, speciality fats and butter, stearin and olein from tree borne fruits and plant-based seeds like shea, sal, mango, etc. The same is used in making chocolates, confectionery, and in the cosmetics

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

industry. MIL is an approved supplier of major international brands, including The Body Shop International Limited, Mondelez International, Inc, Ferrero International SA, Mars Inc, Nestle, and Hershey's, among others, which generally takes three to four years for approval, post which, orders are placed.

The customer base has diversified over the years, marked by the top five customers contributing around 43% of the TOI in FY23 as against 74% of the TOI in FY21.

Notably, around 60% of its sales were derived from exports in FY23 and H1FY24, primarily to customers based in Russia, Malaysia, Italy, and Japan.

Global certifications and accredited products
The company has several globally accepted certifications, which enhance the marketability of its products to different markets across the globe. MIL also has several internationally recognised certificates, including ISO 9001:2015, ISO 14001:2015, ISO 45001: 2018, ISO 50001: 2018, Halal Certified, FSSAI certified, Kosher Certified, SEDEX, Ecovadis, USDA Organic, COSMOS-Organic, COSMOS-Non-Organic, FSSC 22000, ZED GOLD (MSME), Organic EU & EC, RSPO-MB & SG certified, etc. The company has also been recognised as a Star Export House (three star) by the Government of India (GoI). It is also a member of the Federation of Indian Export Organisations (FIEO), the Confederation of Indian Industry (CII), the Agricultural and Processed Food Products Export Development Authority (APEDA), the United Nations Global Compact (UNGC), the Shellac and Forest Products Export Promotion Council (SHEFEXIL), the Roundtable on Sustainable Palm Oil (RSPO), the Indian Green Building Council (IGBC), the Indian Oil Seeds and Produce Export Promotion Council (IOPEPC), and the Global Shea Alliance (GSA), among others. This has helped MIL tap various globally recognised clients. Going forward, the ability of the company to ensure timely renewals and process upgradations, in line with the changing requirements of the certifications, will be a key rating monitorable.

Successful completion of ongoing project, except fractionation plant
Up to FY19, the solvent extraction and refining process were completely outsourced and the dry fractionation process was carried out at the leased Nagpur facility of the company. However, in view of the increased demand for CBE, MIL set up a new integrated plant at Birkoni, Chhattisgarh, in FY20 and is in the process of expanding its capacity at a revised estimated cost of ₹130 crore, funded through preferential allotment of ₹65 crore (total amount raised was ₹100.9 crore in August 2021), debt of ₹40 crore, and the balance through cash accruals. Of the total project cost of ₹130 crore, the company has already incurred majority of its cost.

Notably, all the facilities have become operational (refinery in Q1FY24, solvent extraction plant, additional storage tanks and warehouse in Q2FY24), except the fractionation plant, which too, is expected to become operational shortly. CARE Ratings expects this expansion to save MIL's warehouse rent, logistics cost, and improve its efficiency by having better inventory management and everything under a single roof.

Continuous increase in scale of operations while maintaining stable profitability margins
The scale of operations of MIL witnessed a robust compounded annual growth rate (CAGR) of 36%, resulting in a TOI of ₹353.07 crore in FY23 as against ₹102.93 crore in FY19. The growth is primarily driven by the increasing sales volume, supported by the increasing customer base and the company's foray into new product segments over the past few years. Furthermore, MIL has added major customers like Efko Food Ingredients LLC, Mitsui & Co, Barry Callebaut, Nestle, and Hershey's to its customer base.

The company achieved a PBILDT margin of 16.63% in FY23, which moderated from 18.64% in FY21. The same is because of an increase in raw material prices, which accentuates pressure on the profitability margins. However, MIL's reliance on external debt is low, resulting in low interest cost. The profit-after-tax (PAT) margin stood at 8.43% in FY23 as against 7.06% in FY21. The company generated healthy cash accruals of ₹43.60 crore in FY23 as against ₹23.49 crore in FY21.

In H1FY24, the company achieved a TOI of ₹229.29 crore, while the PBILDT and PAT margins stood at 16.19% and 8.80%, respectively.

A significant demand from large Russian confectionaries has been witnessed post the start of the Russia-Ukraine war and the demand has increased further in H1FY24 (around 3% of the total sales in FY22, which has increased to 19% and 31% of the total sales in FY23 and H1FY24, respectively). This is followed by exports to Malaysia (10% of the sales in H1FY24), Italy (7% of the total sales in H1FY24), and Japan (2% of the total sales in H1FY24). With expected completion of the fractionation unit, going forward, both the company's TOI and PBIDT margin are expected to improve.

Comfortable debt protection metrics
Historically, the financial risk profile remained comfortable with an overall gearing of 0.37x as on March 31, 2023 (0.59x as on March 31, 2021), on account of accretion of profits to reserves and preferential allotment of around ₹100 crore done in FY22, resulting in a high net worth base. The debt coverage indicators, marked by interest coverage, remained comfortable and improved from 3.67x in FY21 to 6.78x in FY23. Furthermore, the total debt (TD)/gross cash accruals (GCA) improved and stood at 2.52x as on March 31, 2023 (3.63x as on March 31, 2021). While CARE Ratings envisages the financial risk profile of MIL to moderate on account of the debt-funded capex, it still expects it to remain comfortable.

Experienced promoters with professional management team
MIL, incorporated in 2005, was established by the Raipur, Chhattisgarh-based Saraf family. Ashish Saraf, having an experience of over 33 years, is the Group President and is actively involved in business activities. Vinita Saraf, Non-Executive Director and Chairperson (wife of Ashish Saraf), has a vast experience of nearly a decade in the speciality fats and butter segment. Furthermore, the marketing, customer, and business development operations are looked after by Shrey Saraf, Whole-time Director, who is assisted by a well-experienced team of professionals. The plant operations are looked after by Gautam Kumar Pal, Managing Director, who holds a Doctorate in Management from the National Institute of Management, and an MBA in Production and Marketing from Amity University, Uttar Pradesh. He has vast experience in the related field. The day-to-day operations are looked after by Ashok Jain, Whole-time Director and Chief Financial Officer, having an experience of more than 10 years in the senior management team of the company.

Furthermore, the research and development (R&D) and product development team is headed by Dr. Krishnadath Bhaggan, who has an experience of more than 21 years. He is an inventor/co-inventor with multiple patents to his name and author/co-author of many publications in the speciality fats and butter business.

Key weaknesses
Working capital-intensive nature of operations
The overall collections from customers are received within 25-35 days and the payments to creditors are made within 10-20 days. The company is required to maintain a sizeable amount of inventory of raw materials (seeds and nuts) as well as finished goods due to the seasonal availability of its raw material (sal seeds – June to July, mango kernel – June to July, and shea nuts – October to January). Moreover, MIL maintains a finished goods inventory of two to three months to ensure timely delivery of its products to its customer base. The average inventory period stood at 221 days as on March 31, 2023; however, the same has improved from 313 days as on March 31, 2021, and is funded majorly through net worth and the rest through working capital borrowings. As on March 31, 2023, the operating cycle stood at 241 days (improved from 305 days as on March 31, 2021).

Foreign exchange fluctuation risk
MIL has around 59% of its total sales in the form of exports and imports palm mid fraction from Malaysia. Furthermore, export sales to Russia have increased over the past two years – from contributing 3% of the TOI in FY22 to 31% in H1FY24, due to the increased demand from large Russian confectionaries post the Russia-Ukraine war. The company has a policy of hedging 85% of its foreign exchange exposures, as articulated by the management. This exposes it to foreign exchange risk to a certain extent.

Exposure to changes in government regulations
MIL remains exposed to changes in government regulations, such as changes in the permissible limit of CBE in chocolate manufacturing in different geographies, changes in the minimum support price (MSP) of sal seed (currently at ₹20 per kg) in India, or any restrictions in the sourcing of sal seeds, mango kernels, shea seeds, etc, from the forests in India and West African countries.

Liquidity: Adequate

The company has adequate liquidity, supported by an unencumbered cash and bank balance of ₹87.42 crore as on September 30, 2023. The average working capital utilisation remained comfortable and stood at 61% for the 12 months ending October 31, 2023. Furthermore, the unutilised limits as on October 31, 2023, stood at ₹60.79 crore, providing an additional liquidity cushion.

MIL generated healthy cash accruals of ₹43.60 crore vis-à-vis its term debt repayments of ₹5.40 crore in FY23. Moreover, the company has term debt repayment obligations of ₹5.60 crore in FY24, which is expected to be funded through cash accruals.

Environment, social, and governance (ESG) risks

Risk Factors	Compliance and action done by the company
Environmental	MIL has participated in tree plantation programmes in India and Ghana, involving tribal women in tree planting initiatives. It has implemented measures for energy-efficiency and obtained the ISO 50001: 2018 certification for energy management systems. Furthermore, the company installed an advanced technology for monitoring, measuring, and controlling utilities and treats and reuses wastewater to minimise freshwater intake and reduce the reliance on external sources. MIL has also started using biofuel, like rice husk for boiler fuel, to reduce carbon emission.
Social	The company has provided e-rickshaws to Mission Vivekananda Ashram. It has extended support to a residential home for destitute individuals and provided treatment, food, clothing, and care to homeless and sick individuals.
Governance	The company reportedly has a defined code of conduct, vigil mechanism, whistleblower policy, ESG commitment policy, and a code of conduct for prohibition of insider trading.

Applicable criteria

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast-moving consumer goods	Fast-moving consumer goods	Agricultural food and other products	Edible oil

MIL, incorporated in 2005, was established by the Raipur, Chhattisgarh-based Saraf family, and is currently managed by Ashish Saraf (President), Vinita Saraf (Non-Executive Director and Chairperson), Shrey Saraf (Whole-time Director), Gautam Kumar Pal (Managing Director), and Ashok Jain (Whole-time Director and Chief Financial Officer). Since its incorporation, MIL commenced with the extraction of butter and fats from sal seeds and mango kernels, and gradually forayed into exotic products, specialty fats and CBE. The company is engaged in the manufacturing, processing, and supplying of specialty fats and butters made from exotic seeds and nuts such as mango kernels, sal seeds, and shea nuts, etc. The key product portfolio includes CBE, sal butter, sal stearin, shea stearin, mowrah butter, kukum butter, mango butter, mango stearin, and de-oiled cake (by-product). The products are mainly used in chocolate, confectionary, and the cosmetics industry. The manufacturing facility of MIL is situated in Birkoni, Chhattisgarh.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	284.79	353.07	229.29
PBILDT	44.69	58.72	37.13
PAT	24.15	29.78	20.19
Overall gearing (times)	0.40	0.37	0.78
Interest coverage (times)	7.74	6.78	4.97

A: Audited, UA: Unaudited. Note: The above financials are the latest available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of interest of independent/non-executive directors of CARE Ratings: Not applicable

Disclosure of interest of the Managing Director & CEO: 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 (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		-	-	-	325.00	CARE A-; Stable
Fund-based - LT-Term loan		-	-	31-03-2030	64.90	CARE A-; Stable
Non-fund-based - LT-Forward contract/derivative limit		-	-	-	10.00	CARE A-; Stable

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*	325.00	CARE A-; Stable	1)CARE A-; Stable (04-Jan-24)	-	-	-
2	Fund-based - LT-Term loan	LT*	64.90	CARE A-; Stable				
3	Non-fund-based - LT-Forward contract/derivative limit	LT*	10.00	CARE A-; Stable				

*Long term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT-Forward contract/derivative limit	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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