Manorama Industries Limited (Revised)

January 04, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Manorama Industries Limited (MIL) derives strength from experienced promoters with professional management team, established procurement network giving it competitive edge in sourcing of raw materials, reputed and diversified customer base across the globe, global certifications and accredited products, continuous increase in scale of operations while maintaining stable profitability margins and comfortable debt protection metrics. CARE Ratings Limited (CARE Ratings) takes note of successful completion of solvent extraction plant, refinery plant, storage tanks and warehouse except fractionation plant which is expected to become operational shortly. However, the rating is constrained by working capital intensive nature of operations due to seasonal nature of raw material sourcing, foreign exchange fluctuation risk and 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 total operating income (TOI) of more than ₹1,000 crore along with improvement in PBILDT margin to more than 18%.
- Improvement in capital structure marked by overall gearing of less than 0.25x on sustained basis.

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

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

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with professional management team

MIL, incorporated in 2005 was established by 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 and wife of Ashish Saraf, has a vast experience of nearly a decade in the speciality fats and butter segment. Further, the marketing, customer and business development operations are looked after by Shrey Saraf (Whole Time Director) and is assisted by a well experienced team of professionals. The plant operations are looked after by Gautam Kumar Pal, Managing Director who holds Doctorate in Mgmt. from National Inst. of Mgmt., MBA in Production and Marketing from Amity University, UP. He has vast experience in the related field. Further, the day-to-day operations are looked after by Mr. Ashok Jain, Whole time Director and Chief Financial Officer having an experience of more than ten years in senior management of the company.
Furthermore, the R&D and product development team is headed by Dr. Krishnadath Bhaggan, who has 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.

Established procurement network giving it competitive edge in sourcing of raw materials

The company's business model is entirely nature based and sources entire raw material from forests. The 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.

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

The Company 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 mainly), and West Africa directly through multiple collection centres. The company has a tie-up with thousands of collection centres in India to help it procure Sal seeds, mango kernels, etc. The network being extensive in nature benefits the company and ensure adequate availability. Further the shea nuts are procured from 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 a majority of its revenue from sale of Cocoa Butter Equivalent (CBE), Speciality fats and butter, Stearin and Olein from tree borne fruits/plant based seeds like Shea, Sal, Mango, etc. The same is used in making chocolates, confectionery and cosmetics industry. MIL is the approved supplier of major international brands including The Body Shop International Limited, Mondelez International, Inc., Ferrero International S.A, Mars Inc., Nestle and Hershey's among others which takes three to fours years to approve and subsequently place orders. The customer base has diversified over the years marked by top five customers contributing ~43% of TOI in FY23 as against 74% of TOI in FY21. Around 60% of its sales is 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 the product to different markets across the globe. The company also has several internationally recognized certificates including ISO 9001:2015, ISO 14001:2015, ISO 45001: 2018, ISO 50001: 2018, Halal Certified, FSSAI certified, Kosher Certified, 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 recognized as a Star Export House (Three Star) by the Government of India. Furthermore, the company is also the member of Federation of Indian Export Organisations (FIEO), Confederation of Indian Industry (CII), Agricultural and Processed Food Products Export Development Authority (APEDA), United Nations Global Compact (UNGC), Shellac and Forest Products Export Promotion Council (SHEFEXIL), Roundtable on Sustainable Palm Oil (RSPO), Indian Green Building Council (IGBC), Indian Oil Seeds And Produce Export Promotion Council (IOPEPC), Global Shea Alliance (GSA) and others. This has helped the company tap various globally recognised clients. Going forward, the ability of the company to ensure timely renewals and process up gradations in line with the changing requirements of the certifications will be a key rating monitorable.

Continuous increase in scale of operations while maintaining stable profitability margins
The scale of operations of MIL witnessed robust compounded annual growth rate of 36% resulting in total operating income of ₹353.07 crore in FY23 as against ₹102.93 crore in FY19. The growth is primarily driven by increasing sales volume supported by increasing customer base and foray into new product segments over past few years. Furthermore, the company added major customers like i.e Efko Food Ingredients LLC, Mitsui & Co, Barry Callebaut, Nestle and Hershey's.
The company achieved PBILDT margin of 16.63% in FY23 which moderated from 18.64% in FY21. The same is on account of increase in RM prices which accentuate pressure on profitability margin. However, the company'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 TOI of ₹229.29 crore while PBILDT and PAT margins stood at 16.19% and 8.80% respectively. Significant demand from large Russian confectionaries has been witnessed post the start of Russia-Ukraine war and demand has increased further in H1FY24 (~3% of total sales in FY22 which has increased to 19% and 31% of total sales in FY23 and H1FY24 respectively). This is followed by exports to Malaysia (10% of sales in H1FY24), Italy (7% of total sales in H1FY24) & Japan (2% of total sales in H1FY24). With expected completion of fractionation unit, both the company's TOI and PBIDT margins are expected to improve going ahead.

Comfortable debt protection metrics
Historically, the financial risk profile remained comfortable with overall gearing at 0.37x as on March 31, 2023 (0.59x as on March 31, 2021) on account of accretion of profit to reserves and preferential allotment of around Rs.100 crore done in FY22 resulting in 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, total debt/gross cash accruals (GCA) improved and stood at 2.52x as on March 31, 2023 (3.63x as on March 31, 2021). Although the financial risk profile is expected to moderate on account of debt funded capex, it is expected to remain comfortable.

Successful completion of ongoing project except fractionation plant
Till FY19, the solvent extraction and refining process were completely outsourced, and dry fractionation process was carried out at the leased Nagpur facility of the company. However, in view of increased demand for CBE, the company set up a new integrated plant at Birkoni, Chhattisgarh in FY20.
However, in view of increased demand, the company is in the process of expanding its capacity at revised estimated cost of ₹130 crore funded preferential allotment of ₹65 crore (total amount raised was ₹100.9 crore in August 2021), debt of ₹40 crore and balance through cash accruals.
Out of total project cost of ₹130 crore, the company has already incurred majority of its cost. All facilities have become operational (refinery in Q1FY24, solvent extraction plant, additional storage tanks and warehouse in Q2FY24) except fractionation plant which is expected to become operational shortly. The said expansion is expected to save on warehouse rent, logistics costs and improve efficiency by having better inventory management and having everything under one roof.

Key weaknesses

Working capital intensive nature of operations

Overall collections from the customers is received within the period of 25-35 days and payment to creditors is made in 10-20 days. The company has to maintain sizeable amount of inventory of raw materials (seeds and nuts) as well as finished goods due to seasonal availability of its raw material (Sal seeds – June to July, Mango Kernel – June to July and Shea nuts – Oct to Jan). Therefore, the company has to maintain significant RM inventory. Moreover, the company maintains 2-3 months of FG inventory for ensuring timely delivery to its reputed customer base. 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 through majorly through net worth and 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

The company has around 59% of its total sales in the form of exports and also imports Palm Mid Fraction from Malaysia. Further, export sales to Russia have increased over past two years from contributing 3% of TOI in FY22 to 31% in H1FY24 on account of 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 management. This exposes the company to foreign exchange risk to a certain extent.

Exposure to changes in government regulations

The company remains exposed to changes in government regulations like change in permissible limit of CBE in chocolate manufacturing in different geographies, change in Minimum Support Price (MSP) of Sal seed (currently it is Rs.20/kg) in India or any restriction in sourcing of Sal seed, mango kernel, Shea seed, etc. from the forests in India and West African countries.

Liquidity: Adequate

The company has adequate liquidity, supported by unencumbered cash & bank balance of ₹87.42 crore as on Sep 30, 2023. The average working capital utilisation remained comfortable and stood at 61% for 12 months ending October 31, 2023. Further, unutilised limits as on October 31, 2023 stood at ₹60.79 crore providing additional liquidity cushion to the company.
The company generated healthy cash accruals of ₹ 43.60 crore vis-à-vis term debt repayment of ₹5.40 crore in FY23. Furthermore, the company has term debt repayment obligation 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 & other Products	Edible Oil

MIL, incorporated in 2005 was established by Raipur, Chhattisgarh based Saraf Family and presently 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 started with extracting butter and fats from Sal seeds and Mango kernel and gradually forayed into exotic products, specialty fats and Cocoa Butter Equivalent (CBE). The company is engaged in manufacturing, processing and supplying 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 Cocoa Butter Equivalent (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 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, Note: The above financials are the latest available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: Not Applicable
Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of rated instrument / facility: 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	-	-	-	-	50.00	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*	50.00	CARE A-; Stable				

*Long term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure 5: Lender details
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3573 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Ajit Kumar Assistant Director **CARE Ratings Limited** Phone: 91-033- 40181620 E-mail: ajit.kumar@careedge.in	Name: Arindam Saha Director **CARE Ratings Limited** Phone: +91-033- 40181631 E-mail: arindam.saha@careedge.in Name: Punit Singhania Associate Director **CARE Ratings Limited** Phone: 91-033- 40181620 E-mail: punit.singhania@careedge.in Name: Shivangi Sharma Assistant Director **CARE Ratings Limited** E-mail: shivangi.sharma@careedge.in

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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