

Royale Edible Company

September 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	19.60 (Reduced from 28.04)	CARE BB-; Stable	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Short Term Bank Facilities	4.46	CARE A4	Assigned
Short Term Bank Facilities	0.50	CARE A4	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) had previously rated the bank facilities of Royale Edible Company (REC) as 'ISSUER NOT COOPERATING'. REC has now cooperated by providing the necessary information for undertaking the review.

The ratings assigned to bank facilities of Royale Edible Company (REC) continue to be constrained by moderate scale of operations, leveraged capital structure and debt coverage indicators, fluctuation in raw material costs resulting in volatility in profit margins, partnership nature of business constitution with inherent risk of withdrawal of capital and highly competitive and fragmented nature of the industry. However, the firm continues to derive strength from experienced promoters and established relationship with customers, especially the Government of Kerala.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent scaling up of operations and stabilize profitability levels at operating margins above 3%
- Improvement in gearing below 2.5x

Negative factors

- Any debt funded capital expenditure further deteriorating the capital structure leading to higher gearing levels > 4x
- Decline in operating margins on a consistent basis below 2%.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that the entity is likely to maintain its relationship with Government of Kerala which coupled with favourable demand scenario shall enable it to sustain stable operating performance over the medium term.

Detailed description of key rating drivers:

Key weaknesses

Moderation in scale of operation over past 2 years

The REC's total operating income (TOI) has declined over the past two years, dropping to Rs 96.72 crore in FY24 from Rs 117.02 crore in FY23 and Rs 174.04 crore in FY22. This decline is on account of reduced sales to one of the major customer, Kerala Supply co, owing to stretch in collection period. The PBILDT margin of the firm improved to 4.65% in FY24 from 3.87% in FY23. However, on absolute basis PBILDT remained at Rs 4.49 crore (PY: 4.52 crore). REC has been adding new customers and expects to improve its customer base while simultaneously expanding its scale of operations.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the firm remained leveraged marked with overall gearing of 2.58x as of March 31, 2024, as against 2.01x as of March 31, 2023. The overall debt stood at Rs. 34.01 crore as on March 31, 2024, comprising of Rs. 22.65 crore Working capital limits, Term Loan of Rs. 4.49 crore and Unsecured loan from related party of Rs. 6.87 crore. The debt coverage indicators moderated in FY24 owing to lower accruals and stretch in working capital cycle leading to higher utilization of working capital

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

limits which resulted in total debt to GCA of (TD/GCA) of 22.52x as on March 31, 2024 (PY: 14.23x). The interest coverage ratio moderated to 1.64x as on March 31, 2024 (PY: 1.76x).

Fluctuation in raw material costs resulting in volatility in profit margins

REC's key raw material is copra (dried coconut) which accounts for major part of the total raw material cost. Coconut is an agro based commodity and is hence, exposed to the risk of price volatility and depends upon factors like demand and supply scenario, and prices of substitute crops, etc., which resultantly impacts the company's profit margins.

Partnership nature of business constitution with inherent risk of withdrawal of capital

REC is a partnership nature of business wherein the inherent risk of withdrawal of capital by the promoter at the time of their personal contingencies resulting in erosion of capital base leading to adverse effect on capital structure. However, the risks associated with partnership nature of the firm is outweighed by the significant experience of the promoters in the construction business and their ability to bring in capital to support the operations. It is witnessed that the promoters had withdrawn capital of Rs. 2.05 crore in FY23 for personal contingencies.

High fragmentation and competition among domestic players due to low barriers to entry

The edible oil industry in India is characterized by intense competition and fragmentation, with the presence of many units attributable to low entry barriers and a liberal policy regime. The firm faces intense competition in both its branded segment business from other industry players including large fast moving consumer goods (FMCG) players who have a nation-wide distribution chain and small regional players with limited product lines and marketing network confined to the local market. This limits the pricing power and resultant profitability of the industry players in a market which is highly price sensitive.

Key strengths

Experienced promoters in the edible oil industry

REC was established as a partnership firm in the year 2012 by Mr. E.N Gopakumar, and his wife Mrs. Anju Gopakumar. The promoters have more than two decades of experience in the field of edible oils. Before establishing REC, the promoters were in the business of trading edible oils for the local wholesalers and subsequently moved into manufacturing of branded edible oils. The day-to-day operations are overseen by Mr. E.N Baby, brother of Mr. Gopakumar.

Established relationship with customers, especially the Government of Kerala

REC is involved in manufacturing and trading of edible oils which is majorly confined to the state of Kerala. The firm supplies its products majorly to Kerala Civil Supplies corporation limited (accounts for more than 65% of sales in FY24) which distributes its product through various government departments such as Supplyco, Consumer Fed etc. Apart from this, the firm caters to other domestic customers and also exports edible oils to the UAE and Europe.

Liquidity: Stretched

Liquidity is stretched marked with tightly matched accruals to repay its term debt obligations and with low cash balance of Rs. 0.14 crore as of March 31, 2024. The operating cycle of the firm elongated to 111 days in FY24 as against 83 days in FY23 due to increase in inventory holding period. REC procures copra (dried coconut) from domestic suppliers and avails credit period up to 20-30 days from its suppliers and the firm stocks it for about 15-20 days. The state government of Kerala (Supplyco) is the major customer, and they avail credit period up to 90 days while for the other customers the firm allow credit period up to 30 days. The firm has been sanctioned with working capital limits of Rs. 25 crore and average working capital utilization in last 12 months ending August 2024, is 85%

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Edible Oil

Royale Edible Company (REC) is a partnership firm established in 2012, by Mr. E. N Gopakumar along with his wife Mrs. Anju Gopakumar and his brother Mr. E. N Baby. REC is engaged in the business of manufacturing of coconut oil predominantly to Kerala State Civil Supplies Corporation (KSCSC; accounts for an average of 70% of the total sales) and trading of edible oils such as palmolein oil, sunflower oil and rice bran oil. The firm is part of the Essen group and manufactures its own brands called "Royal Rich".

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	5M FY2025 (UA)
Total operating income	117.02	96.72	37.00
PBILDT	4.52	4.49	NA
PAT	0.62	0.56	NA
Overall gearing (times)	2.01	2.58	NA
Interest coverage (times)	1.76	1.64	NA

A: Audited Prov.: Provisional UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:

CRISIL has classified the rating of Royale Edible Company under the 'Issuer not cooperating' category vide press release dated 28th August 2024. The reason provided by CRISIL Ratings is non-furnishing of information for monitoring of rating

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	17.00	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	December 2024	0.10	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	November 2026	2.50	CARE BB-; Stable
Fund-based - ST-Working Capital Demand loan		-	-	-	4.46	CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A4

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	17.00	CARE BB-; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Mar-24)	1)CARE BB; Stable (06-Mar-23) 2)CARE BB; Stable (05-Apr-22)	-
2	Fund-based - LT-Term Loan	LT	0.10	CARE BB-; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Mar-24)	1)CARE BB; Stable (06-Mar-23) 2)CARE BB; Stable (05-Apr-22)	-
3	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (18-Mar-24)	1)CARE A4 (06-Mar-23) 2)CARE A4 (05-Apr-22)	-
4	Fund-based - LT-Term Loan	LT	2.50	CARE BB-; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Mar-24)	1)CARE BB; Stable (06-Mar-23) 2)CARE BB; Stable (05-Apr-22)	-
5	Fund-based - ST-Working Capital Demand loan	ST	4.46	CARE A4				

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

LT: Long term; ST: Short term;

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Demand loan	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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