

## Modi Solvex

October 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	40.00	CARE B; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The long-term rating assigned to the bank facilities of Modi Solvex (MS) is constrained by small scale of operations with thin profitability margins, levered capital structure marked by high overall gearing and weak debt coverage indicators, and raw material price fluctuation risk. Further, the rating also factors in partnership nature of constitution and fragmented and competitive nature of industry. These rating weaknesses are partially offset by experienced partners and long track record of operations, favourable location of plant, and diversified customer base.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in scale of operations above Rs. 150 crores along with PBILDT margin above 7% on a sustained basis.
- Improvement in overall gearing below 3.5x on sustained basis.

#### Negative factors

- Deterioration in scale of operations with PBILDT margin below 2.5% on a sustained basis.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings believes that the firm shall continue to benefit from experience of its promoters and favourable location of plant as well as diversified customer base.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Small scale of operations with thin margins:

The firm's scale of operations remained small at Rs.132.97 crore in FY24 (refers to the period from April 01, 2023, to March 31, 2024) (PY: Rs.131.34 crore). The profitability margins of the firm remained thin with limited value addition and high volatility in raw material prices which is procured at market linked rates with limited pricing power. The firm reported PBILDT margin of 3.82% in FY24 against 3.31% in FY23. Further, the PAT margin in FY24 remained low at 0.54% against 0.48% in FY23.

##### Raw material price fluctuation risk:

The firm is engaged in extraction of crude rice bran oil, which is susceptible to fluctuations in raw material prices. The price of rice is governed by the demand-supply dynamics prevalent in major rice growing nations, weather conditions and prices of substitute. Furthermore, any increase in the rice bran prices without a corresponding increase in edible crude oil prices will adversely impact the profitability margins of the entities in this business.

##### Weak solvency position:

The capital structure of the firm continued to be leveraged with overall gearing ratio of 6.46x as on March 31, 2024, against 5.61x as on 31 March 2023 mainly on account of very low net-worth base of the firm. The firm continues to have weak debt coverage indicators marked by interest coverage ratio of 1.30x in FY24 (PY: 1.37x) and total debt to GCA of 32.83x for FY24 (PY:25.89x).

##### Partnership nature of constitution:

Modi Solvex's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. With the low base of its

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

own funds, its operations are susceptible to any business shock, thereby limiting its ability to absorb losses or financial exigencies. Further, it also results in increased vulnerability of its financial risk profile to any incremental debt.

#### **Fragmented and competitive nature of industry:**

The firm operates in a competitive and highly fragmented agro-commodity industry which has a presence of large number of small and medium scale players. Further, the overall value addition in the trading industry is very low, which translates into thin profitability.

#### **Key strengths**

##### **Experienced partners and long track record of operations:**

The firm was established in 2001, and its day-to-day operations are looked after by two partners sharing profit and losses equally. Mr. Anubhav Modi and Mr Ashish Modi both having an industry experience of 23 years. Mr Anubhav Modi has completed MBA and looks after the production and purchase of the raw material. Mr Ashish Modi looks after the accounts and sales of the firm. Furthermore, the partners have been supported by a team of technical persons. With their extensive knowledge of the industry, they are able to maintain long term relationship with their clients and suppliers.

##### **Favourable location of plant:**

The firm majorly utilizes agriculturally based raw materials in its manufacturing process. The manufacturing units are located in Ludhiana district of Punjab. This location results in easy procurement of rice, paddy and mustard and facilitates delivery of the same in a timely manner at competitive prices and lower logistics expenditure. Procurement of raw material is easy due to ample availability from farmers and traders as Ludhiana and its adjoining districts are established belts for rice and mustard cultivation.

##### **Diversified customer base:**

Over the years, Modi Solvex has established good relations with its customers which has helped the firm to generate repeat orders from these customers. Modi Solvex has a diversified customer base as edible oil sale is based on the orders from the refineries and with diverse customer portfolio, the firm has better negotiating power with suppliers and other stakeholders, as it is not overly dependent on a small number of clients. Moreover, the firm has been focusing on adding new clients leading to lowering their customer concentration risk over the years. The top 5 customers contributed 36% of the total sales in FY24 (PY:42%).

##### **Liquidity: Stretched**

The liquidity position of the firm remained stretched as reflected by almost full utilisation of working capital limits in last 12 months ending August 31, 2024. The firm had cash and bank balance of Rs 0.62 crore as on March 31, 2024, which will be used for repayment of the loan and as per the management the shortfall will be funded through infusion of funds by partners in form of unsecured loans as seen in the past years. The firm is not planning to incur any major capex in the near to medium future.

#### **Applicable criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

#### **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	Other Agricultural Products

Modi Solvex is a partnership firm and was established in August 2001. The firm is engaged in the extraction of crude rice bran oil, de-oiled rice bran cake, crude mustard solvent and de-oiled mustard cake at its processing facility located in Ludhiana, Punjab with an installed solvent extraction capacity of 15000 metric tonne of rice bran oil per annum as in August 2024. The firm manufactures rice bran oil in semi-edible form for industrial use, which is sold to refineries based in Punjab and Haryana through brokers and commission agents. The firm has also started manufacturing mustard oil since last year and it contributes 30% of

the revenue of the firm. Furthermore, the firm also sells its by-product i.e. de oiled rice bran cake to cattle feed manufacturers. The main raw material is rice bran which is mainly procured from rice millers based in in Ludhiana, Punjab. Furthermore, the firm has two group concerns, namely, Modi Foods Products and MGM Solvex foods.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	131.34	132.97
PBILDT	4.35	5.08
PAT	0.63	0.72
Overall gearing (times)	5.61	6.46
Interest coverage (times)	1.37	1.30

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**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	-	-	-	-	40.00	CARE B; Stable

#### 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	-	-	-	-	-	1)CARE B; Stable (25-Oct-21)  2)Withdrawn (25-Oct-21)
2	Fund-based - LT-Cash Credit	LT	40.00	CARE B; Stable				

LT: Long 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

## 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](mailto:care@careedge.in) for clarifications.

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