Manorama Industries Limited

January 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	492.90 (Enhanced from 399.90)	CARE A; Stable	Upgraded from CARE A-; Stable
Short-term bank facilities	10.00	CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Manorama Industries Limited (MIL) considers improvement in its scale of operations and profitability in FY24 (refers to April 01 to March 31) and 9MFY25 (refers to April 01 to December 31). Improvement in scale is attributable to ramp up operations of refinery unit in FY24 and commencement of additional capacity of fractionation plant of 25,000 MT from July 2024. CARE Ratings Limited (CARE Ratings) expects further improvement in scale of operations with increasing capacity utilisation of fractionation plant. MIL has demonstrated substantial improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin quarter-over-quarter (q-o-q) from 16.06% in Q4FY24 to 26.37% in Q3FY25 (20.06% in Q1FY25 and 23.13% in Q2FY25). Improvement in margins in 9MFY25 is considering higher proportion of sales being derived from high margined products post commencement of additional fractionation capacity, operating leverage and better absorption of fixed costs.

Ratings continues to derive strength from the experienced promoters with a professional management team and the established procurement network. Ratings also draw comfort from the company's reputed and diversified customer base across the globe, its global certifications and accredited products. Ratings consider moderation in capital structure and debt coverage indicators due to buildup of inventory in anticipation of commissioning of fractionation plant in Q4FY24 which became operational in July 2024, however, the same is largely offset by the company's strong liquidity position.

However, ratings are constrained by the working capital-intensive operations due to the seasonal 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 total operating income (TOI) above ₹1400 crore and improvement in PBILDT margin above 22% on a sustained basis.
- Improvement in capital structure marked by overall gearing of less than 0.25x on a sustained basis.

Negative factors

- Decline in the TOI below ₹600 crore and PBILDT margin below 18% on a sustained basis.
- Moderation in net debt/PBILDT above 1.50x.
- The company's inability to maintain minimum liquidity of ₹100 crore at any point of time.

Analytical approach: Standalone

Outlook: Stable

MIL is expected to sustain its operational and financial performance backed by its strong procurement network, robust demand of its products and capacity addition at its fractionation plant which will aid MIL in meeting the increasing demand of its products.

Detailed description of key rating drivers:

Key strengths

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 chairman and managing director. Vinita Saraf, whole-time director and vice chairperson (wife of Ashish Saraf), has vast experience of nearly a decade in the speciality fats and butter segment. Marketing, customer, and business development operations are managed by Shrey Saraf, whole-time director, who is assisted by a well-experienced team of professionals. Plant operations are managed by Gautam Kumar Pal, whole-time 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

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

has vast experience in the related field. Day-to-day operations are managed by Ashok Jain, whole-time director and chief financial officer, having an experience of over 10 years in the company's senior management team. Research and development (R&D) and product development team is managed by Dr Krishnadath Bhaggan, who has an experience of over two decades. 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

MIL's business model is nature-based and it sources raw materials from forests. The cocoa butter equivalent (CBE) and fractionated fats and butter supplied by MIL is made from extracts of tree-borne seeds such as sal, mango, kokum, mahua, and shea, among others. 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 benefits the company and ensures adequate availability. 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. To further strengthen its supply chain network, MIL has incorporated six wholly owned subsidiaries in West Africa in the current fiscal year.

Reputed and diversified customer base across the globe

MIL derives major revenue from CBE's sale, speciality fats and butter, stearin and olein from tree borne seeds such as shea, sal, and mango, among others. The same is used in chocolates, confectionery and cosmetics 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. Notably, 73% of its sales were derived from exports in H1FY25 (FY23:59% and FY24:57%), primarily to customers based in Europe, Malaysia, Turkey, and UAE among others. Significant increase in exports in the current fiscal resulted from increase in demand of its products from overseas market. MIL is diversifying its presence in overseas market and is currently supplying to around 40 countries, however; none of the countries in export market contribute to over 20% MIL's sales.

Global certifications and accredited products

The company holds multiple globally recognized certifications, enhancing its marketability across international markets. These include quality, environmental, and safety certifications such as ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, ISO 16128-1:2016, and ISO 50001:2018. In food safety and compliance, it holds Food Safety and Standards Authority of India (FSSAI), Kosher, and Halal certifications. For sustainability and ethical sourcing, the company is Fair Trade, Fair for life (FFL) certified, RSPOSCC Certified, SA8000 Certified, and Ecovadis Committed Badge Certified. It also holds organic and natural product certifications like USDA-NOP Organic, NPOP, and COSMOS. In ethical trade and workplace standards, it has SEDEX (SMETA 4-Pillar) and Great Place to Work certifications. Recognized as a Three-Star Export House by the Government of India, the company is a member of Federation of Indian Export Organisations (FIEO), Confederation of Indian Industry (CII), United Nations Global Compact (UNGC), Shellac and Forest Products Export Promotion Council (SHEFEXIL), Indian Oil Seeds and Produce Export Promotion Council (IOPEPC), and Global Shea Alliance (GSA). Going forward, the company's ability to ensure timely renewals and process upgradations aligned with changing requirements of certifications will be a key rating monitorable.

Commencement of additional capacity at the fractional plant

The additional capacity of 25,000 MT at the fractionation plant commenced from July 2024 against scheduled commencement in Q4FY24. The delay was a result of higher than anticipated time taken in installation of few imported machineries. As articulated by the management, MIL was able to complete the project in budgeted cost and there was no cost overrun. The fractionation plant is running at ~50% capacity currently which is expected to ramp up further in FY26 given increasing demand of CBE and other value-added products. This is expected to lead further improvement in scale of operations.

Improvement in financial performance in FY24 and 9MFY25

TOI increased by ~31% from ₹353.07 crore in FY23 to ₹463.87 crore in FY24 driven by higher sales volume due to increasing demand of its products. PBILDT improved from 16.63% in FY23 to 17.31% in FY24 due to better absorption of fixed overheads. In 9MFY25, the company reported PBILDT of ₹127.14 crore on TOI of ₹538.04 crore against PBILDT of ₹52.74 crore on TOI of ₹327.75 crore in 9MFY24. The year-over-year (y-o-y) increase in TOI is attributable to commencement of additional capacity of fractionation plant of 25,000 MT from July 2024, which led to CBE's higher sales. PBILDT margin improved from 16.09% in 9MFY24 to 23.63% in 9MFY25 due to higher sales of margin accretive products, operating leverage and better absorption of fixed overheads due to economies of scale. Going forward, the scale is expected to improve further with increasing capacity utilisation of the fractionation plant.

Key weaknesses

Moderation in capital structure and debt coverage indicators

Overall gearing moderated from 0.37x as on March 31, 2023, to 1.03x as on March 31, 2024, considering increase in debt levels due to higher working capital (WC) utilisation as on balance sheet date and availment of term loan for funding capex. The significant increase in WC utilisation was due to stocking of inventory for the additional capacity of fractionation plant which was scheduled to be commissioned in Q4FY24. Due to delay in commissioning of additional fractionation capacity, the inventory remained unutilised as on balance sheet date leading to increase in average inventory days in FY24. However, considering free cash and bank balances of ₹87.08 crore as on March 31, 2024, net gearing stood at 0.77x as on March 31, 2024 (0.18x as on March 31, 2023). Overall gearing and net gearing improved to 0.98x and 0.71x, respectively, as on September 30, 2024. Total debt to gross cash accruals (TD/GCA) deteriorated from 2.52x in FY23 to 6.50x in FY24 largely considering increase in debt levels. The company has announced it is evaluating plans for capex and the management has articulated that it would be spread over medium term with majority funding to be done through internal accruals.

Working capital intensive operations

Collections from customers are received in 25-35 days and payments to creditors are made in 10-20 days. MIL is required to maintain a sizeable inventory of raw materials (seeds and nuts) and finished goods due to the seasonal availability of its raw material (sal seeds and mango kernel –June to July, shea nuts – October to January). MIL maintains finished goods inventory of two to three months to ensure timely delivery of its products to customers. The average inventory period increased from 221 days in FY23 to 278 days in FY24 considering higher stocking of raw materials for additional capacity of fractionation plant which was anticipated to commence from Q4FY24. However, due to delay in commissioning of additional capacity at the fractionation plant raw material inventory remained unutilised as on balance sheet date leading to increase in average raw material inventory day from 144 days in FY23 to 166 days in FY24. Consequently, the operating cycle elongated from 241 days in FY23 to 284 days in FY24.

Foreign exchange fluctuation risk

Exports contributed 57% of total sales in FY24 and 73% of sales in H1FY25 (FY23: 59%) against 59% import of shea nuts and palm mid fraction (raw material for fractionation) in FY24. MIL is a net exporter and is currently hedging 50% of its net foreign exchange receivables as enunciated by the management which exposes it to foreign exchange fluctuation risk to some extent.

Exposure to changes in government regulations

MIL is 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 restrictions in the sourcing of sal seeds, mango kernels, and shea seeds among others from the forests in India and West African countries.

Liquidity: Strong

MIL has strong liquidity, supported by unencumbered cash and bank balance of ₹100.11 crore as on December 31, 2024 (₹87.08 crore as on March 31, 2024). As enunciated by the management, the company will maintain minimum liquidity of ₹100 crore as a policy providing additional comfort. The average working capital utilisation stood at 68% for 12 months ending November 30, 2024. MIL generated healthy cash accruals of ₹53.29 crore in FY24 against debt repayment obligations of ₹5.60 crore. The projected cash accruals are expected to be sufficient to meet the debt repayment obligations of ₹10.26 crore in FY25.

Environment, social, and governance (ESG) risks

Risk Factors	Compliance and action done by the company
Environmental	• Zero effluent or water discharged outside the plant and entire treated water is utilised in the plant. • The organisation's water withdrawal has negligible effect on the local water table. • MIL uses biofuel husk as an alternative fuel in boiler. • MIL uses organic raw material with no greenhouse gas emissions. Further the final product and by product are eco-friendly. • MIL completed Stage 1 assessment for the "No Deforestation, No Peat, No Exploitation" policy collaborating with the Earthworm Foundation.
Social	• MIL is empowering tribal women in seed gathering through spending ₹6.9 million towards CSR in FY24 for uplifting their overall health and hygiene. • Fair Trade, Fair for Life, EcoVadis, SEDEX certification SEDEX SMETA 4-Pillar and the member of UN global compact. • ISO:45001 management system for addressing the health and safety needs.
Governance	• MIL is committed to UN Sustainable Development Goals and UN Global Compact. • MIL adheres to principle and core element of the National Guidelines on Responsible Business Conduct (NGRBCs).

Risk Factors	Compliance and action done by the company
	• MIL has a structured approach to corporate governance by delegating specific responsibilities to board committees. • MIL developed a stakeholder-centric approach in all its business activities.

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

About the company and industry

Industry classification

Macroeconomic 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 (chairman and managing director), Vinita Saraf (vice chairperson and whole-time director), Shrey Saraf (whole-time director), Gautam Kumar Pal (whole-time 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 in exotic products, specialty fats and 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, among others. The key product portfolio includes CBE, sal butter, sal stearin, shea stearin, mowrah butter, kokum butter, mango butter, mango stearin, and de-oiled cake (by-product). The products are mainly used in chocolate, confectionary, and the cosmetics industry. MIL's manufacturing facility is situated in Birkoni, Chhattisgarh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	353.07	463.87	538.04
PBILDT	58.72	80.31	127.14
PAT	29.78	40.11	69.78
Overall gearing (times)	0.37	1.03	NA
Interest coverage (times)	6.78	4.04	4.67

A: Audited UA: Unaudited, NA: Not Available; 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	-	-	-	-	430.77	CARE A; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2030	51.38	CARE A; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	10.00	CARE A1
Non-fund-based - LT-Forward contract/derivative limit	-	-	-	-	10.75	CARE A; 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	430.77	CARE A; Stable	-	1)CARE A-; Stable (12-Jan-24) 2)CARE A-; Stable (04-Jan-24)	-	-
2	Fund-based - LT-Term Loan	LT	51.38	CARE A; Stable	-	1)CARE A-; Stable (12-Jan-24)	-	-
3	Non-fund-based - LT-Forward contract/derivative limit	LT	10.75	CARE A; Stable	-	1)CARE A-; Stable (12-Jan-24)	-	-
4	Fund-based - ST-EPC/PSC	ST	10.00	CARE A1				

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-EPC/PSC	Simple
4	Non-fund-based - LT-Forward contract/derivative limit	Simple

Annexure-5: Lender details

To view 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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