

Keram Oil Mills Private Limited

November 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	22.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	5.00	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four)	Assigned
Total Bank Facilities	27.00 (₹ Twenty-Seven Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Keram Oil Mills Private Limited (KOMPL) are constrained by moderate scale of operations, geographical concentration of the client with highly competitive and fragmented industry, weak capital structure and debt coverage metrics. The ratings, however, derive strength from the experienced promoters, long track record of operations and locational advantage originating from proximity to raw material.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability to scale up operations with total income above Rs.100 crore while maintaining PBILDT margin above 5% on consistent basis
- Improvement in capital structure with overall gearing below 3x on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in total operating income below Rs.50 crore on a sustained basis
- Deterioration in overall gearing level beyond 7x on a sustained basis

Detailed description of the key rating drivers

Key rating weaknesses

Moderate scale of operations with volatile profitability margins

KOMPL's scale of operations stood moderate with total operating income in the range of Rs.60 crores to Rs 80 crores for past 5 years ended FY22 (refers to the period April 1 to March 31). The company has installed capacity of 160MT/day and the utilisation level stood 55%-70% for past three years ended FY22. The company's PBILDT margin stood volatile in the range of 1.90%-4.30%- over the past three years ended FY22 due to volatility in raw material prices.

Geographical concentration risk

The company's sales is entirely concentrated in the state of Kerala under the brand 'Keram'. KOMPL has three sales unit in Kerala where the customer generally places the orders. The top 5 customer contributes generally 15%-25% for last three years ended FY22.

Weak capital structure and debt coverage metrics

The capital structure of the firm stood weak marked by overall gearing ratio of 5.83x as on March 31, 2022 (PY: 4.92) due to high working capital utilisation and moderate networth. The working capital borrowings increased from Rs.5.98 crore as March 31, 2021 to Rs.14.25 crore as on March 31, 2022 due to incremental working capital requirements for the second unit which commenced operations from January 2022. The total debt to gross cash accruals also stood moderate at 11.43x as on March 31, 2022.

Highly competitive and fragmented nature of the industry

Extraction business in India is highly fragmented due to presence of large number of unorganized players in the lower end of the bulk segment and presence of large and established players in the high end of market attributable to low entry barriers such as low capital and low technical requirements of the business and a liberal policy regime. Due to high degree of fragmentation, small players hold very low bargaining power against both its customers as well as its suppliers. Further, most of

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

the manufacturers offer similar products with little difference generating intense competition resulting in lower margins for most of the players. Further, availability of varieties of edible oils such as rice bran oil, coconut oil, sunflower oil, palm oil, groundnut oil, cotton seed oil, etc. which can be substituted for one another also adds on the competition.

Key rating strengths

Experienced promoters in the field of edible oil and long track record of operations of the company

Mr.P.K. Narayanan Nair is the managing director of the company with more than 25 years of experience in the edible oil field. He is supported by his wife Ms.Kumari P.N along with his son for day-to-day operations. His son Mr. Vishnuprasad P.N takes care of Unit-1 and his other son Mr.Sreepasad P.N manages Unit-2. The company has long track record of around 25 years of operations. Due to their extensive experience in the industry, the company benefits from their established healthy relationship with key suppliers and customers.

Proximity to raw material sources

KOMPL sources the finest copra from different parts of Kerala, a state whose very name is associated with coconut. The company also procures from Tamil Nadu and transfers it to its manufacturing unit at Ernakulam. This procurement usually done on weekly basis or on the basis of demand. Copra is usually procured through the tender basis. KOMPL uses the dry process for producing coconut oil. The dry copra stock is processed using high-end imported machinery and in hygienic environment. Dry copra is garbled and pressed in a heated hydraulic press to extract the oil. The crude coconut oil that is extracted is further refined through mechanized filtering. The company uses only food grade material throughout processing.

Liquidity: Stretched

Liquidity is stretched marked by tightly matched accruals of Rs.1.88 crore in FY22 against the repayment obligations of Rs.1.00 crore in FY23. The company had free cash balance of Rs.0.03 crore as on March 31, 2022. The company has working capital limits of Rs.16 crore and they procure the raw materials weekly on cash basis and thus the average utilization of the same stood high at 90% for the past 12 months ended October 31, 2022. KOMPL's collection period is usually around 25-30 days. The current ratio stood at 1.02 as on March 31, 2022.

Analytical approach : Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

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About the company

Keram Oil Mills Private Limited (KOMPL) was established in the year 1997 as a proprietorship concern as a small unit in Kerala. It was then converted to a partnership concern in 2006 and in 2019 as a Private Limited Company. The company have more been in this edible oil segment for more than 25 years. KOMPL is engaged in oil extraction and selling of related products. Their main product is packaged coconut oil which they sell it under their brand of 'KERAM'. KOMPL also sells De-oiled cake (cattle feeds) under the name of 'Keram Agro cattle feeds' since FY22. Currently the company have two manufacturing units in Kerala for oil extraction with capacity of 160MT per day.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23(Prov)
Total operating income	65.34	72.34	43.20
PBILDT	1.78	3.11	NA
PAT	0.26	1.26	NA
Overall gearing (times)	4.92	5.83	NA
Interest coverage (times)	1.73	2.50	NA

A: Audited, Prov : Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4
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		-	-	-	16.00	CARE BB-; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	2.50	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	March 2027	3.50	CARE BB-; Stable
Fund-based - LT/ ST-Vendor financing		-	-	-	5.00	CARE BB-; Stable / CARE A4

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	3.50	CARE BB-; Stable				
2	Fund-based - LT-Proposed fund based limits	LT	2.50	CARE BB-; Stable				
3	Fund-based - LT/ ST-Vendor financing	LT/ST*	5.00	CARE BB-; Stable / CARE A4				
4	Fund-based - LT-Cash Credit	LT	16.00	CARE BB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : Not Applicable
Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT/ ST-Vendor financing	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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