

Modi Solvex

October 25, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Revised to CARE B; Stable (Single B; Outlook: Stable) from CARE B+; Stable (Single B Plus; Outlook: Stable) and Withdrawn
Total Bank Facilities	0.00		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reviewed and revised the rating assigned to the long term bank facilities of Modi Solvex (MDS) to **CARE B; Stable [Single B; Outlook: Stable]** from **CARE B+; Stable [Single B Plus; Outlook: Stable]** and has simultaneously withdrawn it with immediate effect. The ratings factors in the constraints relating to Low profitability margins, Leveraged capital structure, Raw material price fluctuation risk. The rating further takes into account High degree of competition resulting from fragmented nature of the edible oil industry, Partnership nature of constitution and stretched liquidity. The rating, however, continues to take comfort from experienced promoters with long track record of operations and Increasing scale of operations, and moderate debt coverage indicators.

The above action has been taken at the request of Modi Solvex and 'No Objection letter' received from the bank(s) that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

The revision in rating was done on account of non-availability of information. At the time of last rating exercise on March 02, 2021 following were the weaknesses and strengths.

Key Rating Weaknesses

Low profitability margins

The profitability margins of the firm stood low marked by PBILDT margin of 4.73% and PAT margin of 0.54% in FY20. The PBILDT margin of the firm decreased from 5.38% in FY19 owing to fluctuation in raw material prices and company is unable to pass on the incremental price. Consequently, PAT margin stood low at 0.54% in FY20 (PY: 0.64%).

Leveraged capital structure

The capital structure of the firm continues to be leveraged with overall gearing ratio of 3.67x as on March 31, 2020. The overall gearing ratio deteriorated from 3.40x as on March 31, 2019 mainly on account of higher utilization of working capital limits as on last balance sheet date.

Raw material price fluctuation risk

The entities in edible oil industry are susceptible to fluctuations in raw material prices. 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.

High degree of competition resulting from fragmented nature of the edible oil industry

Low barriers to entry have resulted in highly fragmented nature of the edible oil industry. Furthermore, most of the manufacturers offer similar products with little difference which competes with each other resulting in lower margins for most of the players.

Partnership nature of constitution

MDS'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. Furthermore, the partners have withdrawn capital amounting to Rs.0.05 crore in FY20 (PY: infused Rs.0.44 crore in FY19).

Key Rating Strengths

Increasing scale of operations

The total operating income (TOI) of MDS increased from Rs.51.04 crore in FY19 to Rs.61.63 crore in FY20 on account of higher quantity sold owing to higher demand received from existing customers. The same, however, continued to remain small.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Moderate debt coverage indicators

The debt coverage indicators of the firm remain moderate marked by interest coverage ratio of 1.32x in FY20 (PY: 1.23x) and total debt to GCA of 28.90x for FY20 (PY: 35.63x) on account of moderate cash accruals generated.

Experienced partners and long track record of operations

MDS was established in 2001 and its day to day operations are looked after by its five partners jointly. Mr. Narinder Kumar Modi, Mr. Vijay Kumar Modi and Mr. Anubhav Modi have an industry experience of around four decades, three and a half decades and two decades respectively through their association with MDS and Modi Rice & General Mills (entity engaged in processing of paddy till 2001). Furthermore, Mr. Ashish Modi and Mr. Sahil Modi have an industry experience of around one and a half decades through their association with MDS

Liquidity analysis: Stretched- The average working capital limit remains 90% utilized for the last 12 months' period ended January, 2021. The liquidity position of the company stood moderate marked by current ratio of 1.50x and quick ratio of 0.48x as on March 31, 2020. The firm had low level of free cash and bank balance of Rs. 0.84 crore as on March 31, 2020 (PY: Rs. 0.10 cr.). The average operating cycle of MDS continued to remain elongated at 123 days for FY20 (PY: 138 days). The firm has availed the moratorium offered by RBI in light of Covid-19 for its interest payment obligations on cash credit limit and for its interest and principal repayment of term debt obligation.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Entities](#)

About the Company

Modi Solvex (MDS) was established in 2001 as a partnership firm by Mr Anubhav Modi, Mr Narinder Kumar Modi, Mr Vijay Kumar Modi, Mr Ashish Modi and Mr Sahil Modi sharing profit and loss in the ratio of 25%, 25%, 20%, 15% and 15% respectively. The firm is engaged in the extraction of rice bran oil from rice bran at its processing facility located in Ludhiana, Punjab with an installed solvent extraction capacity of 8280 metric tonne of rice bran oil per annum as on February 20, 2021. 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. 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 Ludhiana, Punjab. Furthermore, the firm has two group concerns, namely, Modi Foods Products and MDS Agro foods. Modi Foods Products is a partnership firm engaged in processing of paddy since 2007. MDS Agro foods are a partnership firm and are engaged in agro processing business..

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

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total operating income	51.04	61.63
PBILDT	2.75	2.91
PAT	0.32	0.33
Overall gearing (times)	3.40	3.67
Interest coverage (times)	1.23	1.32

A: Audited

Status of non-cooperation with previous CRA: Modi Solvex has not cooperated with ACUTE which has classified it as issuer not cooperative vide Press release dated Oct 21, 2020. The reason provided by Acuite is non-submission of information by the company.

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE B+; Stable (02-Mar-21)2)CARE B; Stable; ISSUER NOT COOPERATING* (26-May-20)	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (29-Mar-19)2)CARE B+; Stable (03-Apr-18)

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name: Shivam Tandon
Group Head Contact no.: 011- 45333237
Group Head Email ID: Shivam.tandon@careratings.com

Business Development Contact

Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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