Kanpur Edibles Private Limited
December 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	115.33	CARE A-; Positive (Single A Minus; Outlook: Positive)	Assigned
Short Term Bank Facilities	818.67	CARE A2 (A Two)	Assigned
Total Bank Facilities	**934.00 (₹Nine Hundred Thirty-Four Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers
The ratings assigned to the bank facilities of Kanpur Edibles Private Limited (KEPL) take into account growing scale of operations coupled with improving profitability over the last five fiscals, well diversified product profile and reputed clientele, comfortable debt coverage indicators albeit moderate capital structure, adequate liquidity position and experienced management. The ratings also factor in backward and forward integrated operations, established brand presence and increasing contribution of value-added products. These rating strengths are partially offset by susceptibility of margins to the volatility in the raw material prices and foreign exchange fluctuation risk, competitive industry landscape and regulatory risks associated with edible oil industry.

Rating sensitivities
Positive factors – Factors that could lead to positive rating action/upgrade:
- Greater than envisaged improvement in scale of operations and PBILDT margins to above 4.50%
- Prudent working capital management along with healthy operational cash flow leading to improvement in debt coverage indicators

Negative factors – Factors that could lead to negative rating action/downgrade:
- Sluggish business performance and decline in operating margins to under 3.25%, impacting cash generation
- Deterioration in overall gearing to more than 1.30x
- Higher than expected debt funded capex or acquisitions, or stretch in working capital cycle impacting the debt coverage metrics

Outlook: Positive
The positive outlook is on account of CARE's expectation of sustained operational performance supported by higher contribution from value added products and commercial operations of groundnut oil plant is expected to provide steady volume growth and profitability. The outlook may be revised to 'Stable' in case of lower than envisaged growth in scale and profitability of the company or deterioration in the debt coverage indicators.

Detailed description of the key rating drivers
Key rating strengths
Growing scale of operations albeit moderate profitability margins
Company has registered healthy growth in the scale of operations over the last five fiscals ending FY22 (refers to the period April 01 to March 31) at a CAGR of 10.41% driven by growth in institutional sales and retail sales. KEPL has grown by approximately 36% in FY22 over previous year and stood at Rs. 6,251.18 Cr owing to improvement in sales volume coupled with increase in edible oil prices. Correspondingly, the raw material prices also increased, however the company has been able to pass on the increase in raw material prices leading to improvement in PBILDT margin to 3.79% in FY22 (PY: 2.24%). The improving trend in PBILDT margin can also be attributed to new value-added products year on year and PAT margin has also improved due to low borrowing cost on non-fund based limits and lower dependence on external borrowing. Historically, the PBILDT margin has been in the range of 2% to 3% due to limited value addition and price volatility in the industry. Furthermore, the lower margins can also be attributed to trading activity contributing significantly to total revenue (~22% of total revenue in FY22) which inherently has lower profitability margins.

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

H1FY23: KEPL has recorded a turnover of Rs. 3,583.48 Cr along with PBILDT margin of 3.84% during H1FY23 (refers to the period April 01 to September 30). With commencement of Groundnut oil extraction plant from October 2022, the revenues are expected to grow going further.

Long track record of operations with an experienced management team & resourceful promoter
The company is a part of Mayur group of Uttar Pradesh and is engaged in manufacturing, refining and trading of edible oils for more than three decades which has helped the company in establishing long-standing business relationships with its customers and getting regular orders from them. The company is managed by Mr. Manoj Kumar Gupta and Mr. Sunil Kumar Gupta, who have more than two decades of experience in the similar line of business and the same has helped the company in maintaining efficient risk management policies. The promoters have extended continuous financial support over the years to fund the business requirements of the company in the form of unsecured loans and inter-corporate deposits. The company sells its products under the brand name "Mayur" and has established presence in the Northern region of the country.

Diversified product profile and reputed clientele
KEPL has backward integrated and forward integrated operations leading to a well-diversified product portfolio consisting of various types of edible oils, such as palm oil, mustard oil, sunflower oil, and soybean oil, along with other products such as soya bari, cattle feed and soap & detergents. The company has also started with the production of groundnut oil in the current fiscal. Further, the company derives majority of its revenue from institutional sales (~41% of total revenue in FY22) wherein the company sells its finished products top biscuit manufacturing companies.

Comfortable debt coverage indicators albeit moderate capital structure
The capital structure of the company is moderate with an overall gearing (incl. acceptances) of 1.00x as on March 31, 2022 (PY: 1.36x). Correspondingly, TOL/TNW also stood moderate at 2.44x (PY: 2.34x). The company primarily relies on its non-fund based limits along with fund based working capital limits to meet its working capital requirements. The debt profile comprises of Cash Credit (CC), term loans and LC backed acceptances. Unsecured loans and inter-corporate deposits have been considered as quasi equity as these are subordinated to borrowings of the company. The capital structure is expected to moderate marginally owing to addition of new loans in debt profile and enhancement non-fund-based limits in the current year. However, it is partially offset by healthy cash deposits. Debt coverage indicators for FY22 stood healthy marked by interest coverage ratio of 15.49x (PY: 7.13x) and total Debt/PBILDT of 2.53x (PY: 5.72x).

Key rating weaknesses
Susceptibility of margins to volatile raw material price fluctuations and foreign exchange volatility risk
Being an agricultural commodity, raw material prices to a certain extent are affected by various factors like monsoon during the year, area under cultivation, global pricing scenario (linked to global demand supply) and government policies leading to volatility in the same. Accordingly, KEPL enters into forward sale contract in the commodity exchange, immediately on entering into raw material procurement contract, in order to mitigate the aforementioned price volatility risk.
Majority of the company's raw material requirement are met through imports, whereas majority of its sales are domestic as evident from the table above. During FY22, the company had total imports of Rs.4,540.60 crore comprising 75.68% of total purchases as against Rs.3,154.29 crore (72.41% of total purchases) in FY21. The same is mitigated through high level of institutional sales wherein sale price is fixed considering markup over raw material cost and processing cost. Thus, the exposure of company is indirectly hedged to the extent of sale to such customers. Also, forex risk is partially mitigated by taking back-to-back sale contracts with customers.

Competitive industry landscape
The edible oil industry is highly competitive with presence of both large national players and multiple regional players. Along with logistics and supply chain capability, the large integrated players have a sizeable oil processing and packaging scale with wide distribution network. Thus, profitability is inherently low and is further exposed to movement in prices of raw material, finished goods and other substitute. However, with increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase which bodes well for branded refined oil players. India is one of the major soya seed producing countries with fair share in exports of soya meal. However, there was significant decline in the soya meal export from India during FY22 due to higher domestic soyabean prices and higher freight costs. Going forward with expected reduction in soyabean prices with arrival of new crop soyameal industry is recover in H2FY23.

Regulatory risk associated with edible oil industry
The price of palm oil imported by India from the largest exporters of the commodity in the world, i.e., Indonesia and Malaysia, are affected by the frequent duty structure changes done by the respective governments to protect their domestic industries.

The price differential for carrying out refining operations in India depend upon the difference in duty between the export duty levied by the exporters on crude palm oil and refined palm oil and the import duty on the same by India. The duty differential should be large enough to absorb the variable costs of carrying out refining operations. Accordingly, KEPL is exposed to adverse changes in regulatory and import/export duty structures based on actions of various government institutions.

Liquidity: Adequate
Liquidity is adequate marked by healthy operational cash flows which comfortably covers the LC payments due in any month. Liquidity is further characterized by healthy estimated gross cash accruals of ~Rs.196 crore in FY23 with miniscule long-term debt repayment of Rs. 7.46 Cr during FY23. Liquidity is also supported by unencumbered cash and bank balance of Rs. 100.11 Cr as on September 30, 2022. The average utilisation of fund-based limits stood at ~26% for the trailing twelve months ending August, 2022. The company imports crude palm oil against LC and the utilisation of the LC limits remain full. The operating cycle of the company remained negative 19 days owing to faster conversion of inventory into sales and faster realizations from debtors with creditor days ranging 60-70 days as major proportion of the same are backed by LC having usance period of 90 days. During FY22, the company generated cash flow of Rs. 204.14 crore from operating activities (PY: Rs. 341.63 crore), the same is majorly on account of increased scale of operations.

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
Wholesale Trading

About the company
Kanpur Edibles Private Limited was incorporated in the year 1990 and is the flagship company of Mayur Group, based in Kanpur, Uttar Pradesh. Currently the company is managed by Mr. Manoj Kumar Gupta, and Mr. Sunil Kumar Gupta. KEPL is engaged in the manufacturing, refining, and trading of edible oils having a refining capacity of 3,02,000 MTPA as on March 31, 2022 (proposed to be increased to 6,02,000 MTPA by end of current fiscal). The company also extracts raw soyabean and mustard oil through its solvent extraction plant having an installed capacity of 2,94,000 MTPA and the by-products so formed are used to produce Soya bari. Further, the company also has its presence across other segments such as vanaspati, cattle feed and soap & detergents. Recently, the company has started with the groundnut process plant with an installed capacity of 1,50,000 MTPA. The company sells its products under the brand name "Mayur" and "Cook & Fry".

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	4,587.08	6,251.18	3,583.48
PBILDT	102.75	237.05	137.73
PAT	62.75	159.05	94.2
Overall gearing (times)	1.36	1.00	0.63
Interest coverage (times)	7.13	15.49	NA

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: BWR BBB+; Stable/BWR A2; Issuer not cooperating as on September 22, 2022

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		-	-	-	60.00	CARE A-; Positive
Fund-based - LT-Term Loan		-	-	June 2026	55.33	CARE A-; Positive
Non-fund-based - ST-Forward Contract		-	-	-	18.67	CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	800.00	CARE A2

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	55.33	CARE A-; Positive	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	60.00	CARE A-; Positive	-	-	-	-
3	Non-fund-based - ST-Forward Contract	ST	18.67	CARE A2	-	-	-	-
4	Non-fund-based - ST-Letter of credit	ST	800.00	CARE A2	-	-	-	-

*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-Term Loan	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Non-fund-based - ST-Letter of credit	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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Sachin Mathur
Phone: +91-11-45333206
E-mail: sachin.mathur@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-45333200
E-mail: swati.agrawal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in