Shiv Vegpro Private Limited

March 17, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	30.00	**CARE BBB: Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Total facilities	**30.00 (Rupees Thirty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Shiv Vegpro Private Limited (SVPL) continues to derive strength from vast experience of promoters and established track record of operations in edible oil Industry, operational synergies among group entities and stable demand outlook for edible oils. The rating also draws strength from group's comfortable financial risk profile marked by comfortable capital structure and debt coverage indicators and adequate liquidity position as well as strategic location of processing unit with close proximity to raw material sources. The rating also factors in improvement in scale of operations of the group in FY19.

The rating, however, is constrained on account of thin and fluctuating profitability margins due to limited value additive nature of operations of the group in highly competitive and fragmented edible oil industry. The rating is further constrained due to availability of raw material being exposed to vagaries of nature and vulnerability of profitability margins to volatile raw material prices.

Rating Sensitivities

Positive Factors:

- Improvement in scaling up of operations with profitability levels marked by PBILDT margin (on combined basis) at 6.00% on sustained level.

Negative Factor:

- Undertaking any debt funded capex resulting in the deterioration of overall gearing ratio beyond 1.50 times (on combined basis) in projected period.
- Decline in operating margin below 1.50% (on combined basis) on consistent basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management with long track record of operations and operational synergies among group entities: SVPL is part of Shiv Group promoted by the Saboo family of Kota. The promoters have vast experience in agro processing business. Mr Satya Prakash Saboo who is presently the director of SVPL has more than three decades of experience in the edible oil industry.

SVPL derives operational synergy with SAL and SEL, other group entities. SAL purchases soya husk from SVPL and crude mustard oil from SEL, whereas it sells soyabeen seeds to SEL and SVPL. Furthermore, SEL does refining for SVPL on job work basis. SAL owns 7.04% of shareholding of SEL whereas SEL has 10% shareholding in SVPL as on March 31, 2019.

Stable demand outlook for edible oils: The consumption of edible oil in India has been rising steadily which can be attributed mainly to economic boom resulting in better standard of living, decline in edible oil prices and growth in demand for fried processed food products. India's per capita consumption in edible oils is growing and hence the domestic demand for edible oil is estimated to move faster in the medium to long term on account of the higher disposable income.

Strategic location of manufacturing unit with close proximity to raw material sources: SVPL's processing facility is located at Kota, Rajasthan, strategically located in one of the largest mustard producing regions of India which makes it easier for the company to access its primary raw material (soyabean seeds, mustard seeds and mustard oil cakes etc.).

Comfortable capital structure and debt coverage indicators: Solvency position of the group stood comfortable with overall gearing of 0.31 times as on March 31, 2019. Further, the debt coverage indicators of the group also remained comfortable marked by total debt to GCA of 3.29 times as on March 31, 2019 and PBILDT interest coverage of 5.16 times in FY19. Further, overall gearing of the group deteriorated to 0.57 times as on December 31, 2019 mainly on account of

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

higher utilization of limit for purchasing of inventory. Further, total debt to GCA stood at 3.51 times as on December 31, 2019.

Improvement in Total Operating Income: Combined TOI of the group improved by around 27.44% to Rs.1452.35 crore in FY19 on a Y-o-Y basis on account of improvement in sales volume of Soya DOC, Hi-Proteins Soya Meal (HPSM) and Soya refined as well as improvement in average sales realization of the same. Further, as per provisional results for 9MFY20, the group has reported TOI of Rs.1070.37 crore.

Liquidity: Adequate
Liquidity position of SVPL remained moderate with operating cycle of 40 days in FY19 Further, average utilization of working capital bank borrowing limits during last 12 months ending February, 2020 remained moderate at 28.97%. SVPL had unencumbered cash and cash equivalent of Rs.5.03 crore as on March 31, 2019 and envisaged cash accruals of Rs.10.60 crore in FY20 against which SVPL does not have any long term debt repayment obligations.

Key Rating Weaknesses
Thin profitability margins: PBILDT margin of the group deteriorated by 146 bps to 2.54% in FY19 owing to higher cost inventory due to lower kharif crop in season in FY18. Further, PBILDT margin has also declined on account of losses incurred in the Shiv Health Foods LLP (SHF) resulting in decline in income as share of profit from SHF in Shiv Agrevo Ltd. (SAL). Further, PAT margin of group also deteriorated, in line with PBILDT margin, by 99 bps to 1.22% in FY19. However, PBILDT and PAT margin has improved during 9MFY20 to 4.00% and 2.53% owing to sharp increase in the sales realization of the soya oil in international as well as domestic market in November and December, 2019 which benefited in the form of higher margins earned from low cost inventory.

High fragmentation and competition among domestic participants due to low entry barriers within edible oils and threat from cheap imports: The Indian edible oil industry is highly fragmented with large number of players operating in organized and unorganized market attributable to low entry barriers such as low capital and low technical requirements of the business and a liberal policy regime (SSI reservation for traditional oilseeds (only solvent extraction) and tax incentives by various state governments). Further, weak harvests, volatility in prices and forex movements also impact profitability margins of players operating in the industry.
Thus, profitability is inherently thin and is further exposed to movement in prices of soya bean seed, finished goods (mainly DOC and soya refined oil) and other substitute oils. The prices of DOC are linked to the international markets and governed by the global demand-supply scenario and prices and availability of soya bean seed. Furthermore, the consumption of refined soya oil depends on its price differential with other edible oils. The government also from time to time revises the import duties on palm and other edible oils in order to protect interest of domestic extractors and refineries.

Availability of raw material exposed to vagaries of nature and vulnerability of profitability to volatility in raw material prices: Group uses mustard seeds, soya seeds and Oil cakes as the key raw material for the extraction process. Furthermore, soya and mustard seeds being an agricultural commodity, availability and prices 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.

Analytical approach: Combined. For analysis purpose we have presented a combined view of the group entities (Shiv Agrevo Ltd. (SAL), Shiv Edible Ltd. (SEL) and Shiv Vegpro Pvt. Ltd. (SVPL)) as all these entities are in same line of business, have been promoted by same promoter family as well as have operational linkages. Financials of group entities have been combined after adjusting inter-company transactions.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Factoring linkages in ratings

About the Company
Kota-based (Rajasthan) Shiv Vegpro Private Limited (SVPL) was incorporated in March 2006 by Saboo family. SVPL is engaged in solvent extraction of crude soya edible oil and manufacturing of soya grit and flour from soda DOC. SVPL's primary products include refined soya and Soya Meal (SM) and Soya grits & flour. It has an installed capacity of 400 Tons per Day (TPD) for soya oil processing as on March 31, 2019.

SVPL is part of Kota based Shiv Group of Industries comprising of SVPL, Shiv Agrevo Limited, Shiv Edibles Ltd engaged in processing of edible oil and Shiv Health Food LLP engaged in processing of dairy products. Besides these, Shiv Trading Company and Maheshwari Udyog are the associate entities engaged in the trading of soya products.

Standalone - SVPL

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	541.69	659.38
PBILDT	16.30	14.77
PAT	7.87	6.91
Overall gearing (times)	1.03	0.61
Interest coverage (times)	4.58	4.08

A: Audited

SVPL has earned a PAT of Rs.9.34 crore on a TOI of Rs. 514.21 crore as per provisional results for 9MFY20.

Shiv Group - Combined

Brief Financials (Rs. crore)	FY18 (UA)	FY19 (UA)
Total operating income	1139.65	1452.35
PBILDT	45.57	36.84
PAT	25.22	17.65
Overall gearing (times)	0.61	0.31
Interest coverage (times)	6.50	5.16

A: Unaudited

Shiv group has earned a PAT of Rs.27.08 crore on a TOI of Rs.1070.37 crore as per provisional results for 9MFY20.

Status of non-cooperation with previous CRA: ICRA in its press release vide dated October 31, 2019 continued SVPL under issuer not cooperating category.

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB; Stable	-	1)CARE BBB; Stable (20-Feb-19) 2)CARE BBB; Stable (18-Apr-18)	-	-

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.*

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