



Rating Rationale

M G Oils

7 Feb 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 28.85 Crores of M G Oils.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund Based Cash Credit Term Loans	22.00 6.85	Long Term	BWR BB (Pronounced BWR Double B) Outlook: Stable
Total	28.85	INR Twenty Eight Crores and Eighty Five Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY 17, projections till FY '20, publicly available information and information/clarifications provided by the firm management.

The rating is constrained by firm's moderate capital structure, profit margins on the lower side, commodity nature of business with exposure to price fluctuations, market concentration risks as well as the highly fragmented nature of refined oils industry.

The rating has inter alia, factored in the experience of the partners in the cottonseed oil industry, infusion of capital in the business, investment in the upgradation of plant & machinery, improved capacity utilisation, well managed cash conversion cycle and comfortable debt coverage indicators.

Description of Key Rating Drivers

- **Credit Strengths:**



Experienced Partners: The firms' partners Shri Sunil Bansal, Shri Vinod Bansal, Smt. Santoshdevi Bansal, Smt. Anjali Bansal and Smt. Jayshree Bansal carry a long standing experience in cottonseed oil refining industry for more than two decades.

Capital Infusion: The promoters' capital has shown an increasing trend in the recent years, indicating their confidence in the viability of the business.

Installation and Upgradation of machinery: The firm has invested in installation & upgradation of its machinery. The firm has also availed a loan for adding storage capacity and automation of packing division of finished goods.

Cash conversion cycle: Firm's liquidity is relatively well managed, with a cash conversion cycle of 21 days. Current Ratio stands at 1.29x.

Debt Coverage Indicators: The firm's debt coverage indicators are at a comfortable level, with ISCR and DSCR at 1.74x and 1.22x respectively.

- **Credit Risks:**

Limitations of a Partnership Firm: M G Oils, being a partnership firm has limitations like less public disclosures, availing funds from external sources as well as uncertainty of its duration.

Capital Structure: The firm's capital structure, with a tangible net worth of Rs. 8.02 crs and Total Debt of Rs. 19.28 crs, is moderate.

Commodity Nature of Business: The commodity nature of business exposes the firm to volatility of prices of raw materials, thus impacting the profit margins. The seasonality also affects the continuous flow of raw materials throughout the year. However, the orders are placed 6-8 months in advance and thus the price fluctuations are mitigated to an extent.

Government Regulations: Government regulations in managing agricultural produce may affect supplies.



Market Concentration Risk: The firm's sources as well as sells its products in areas near its place of operations, thus facing market concentration risk. However, the firm is expanding its geographical reach and has a 60-40 ratio in favour of local market.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **M G Oils** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues & profit show sustained improvement and the capital infusion continues. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

M G Oils, established as a partnership firm in Sep '13, is engaged in the refining of Soybean, Cottonseed, Palm and similar edible oils. It has set up an oil refinery unit in Khandwa, Madhya Pradesh, starting operations from Feb-Mar '15. The unit has a capacity to refine 100 TPD of most of the oils. The firm sources the produce locally as well as through imports and carries out refining activities as per orders received in advance. The firm is constituted as partnership firm, with Shri Sunil Bansal, Shri Vinod Bansal, Smt. Santoshdevi Bansal, Smt. Anjali Bansal and Smt. Jayshree Bansal as its partners.

Financial Performance

As per audited FY 17 financials, M G Oils' total operating income increased to Rs. 200.06 crs (v. Rs. 127.44 crs) on account of increased orders, which also resulted in higher capacity utilisation. Profits, too, increased in line with revenues, with EBITDA & PAT at Rs. 4.74 crs (v. Rs. 4.19 crs) & Rs. 0.71 crs (v. Rs. 0.31 crs) respectively. TNW (A) increased to Rs 8.02 crs (v. Rs. 4.34 crs), while Total Debt (A) increased to Rs. 19.28 crs (v. Rs. 15.80 crs) resulting in an improved gearing ratio (A) of 2.40x (v. 3.64x). Debt coverage ratios of ISCR & DSCR are moderate at 1.74x (v. 1.70x) & 1.22x (v. 1.09x) respectively. Liquidity remained manageable, with a cash conversion cycle of 21 days (v. 20 days). Current ratio stands at 1.29 (v. 1.18x).



Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount(₹ Cr)	Rating	2017	2016	2015
1	Cash Credit	Long Term	22.00	BWR BB Outlook Stable	-	-	-
2	Term Loans		6.85		-	-	-
	Total		28.85	₹ Twenty Eight Crores and Eighty Five Lakhs Only			

Status of non-cooperation with previous CRA: CRISIL BB Issuer Not Cooperating on 13th November 2017

Any other information: Non Applicable

Key Financial Indicators

Key Parameters	Units	2016	2017
Result Type		(Audited)	(Audited)
Operating Revenue	₹ Cr	127.44	200.06
EBITDA	₹ Cr	4.19	4.74
PAT	₹ Cr	0.31	0.71
Tangible Net worth	₹ Cr	4.20	8.02
Total Debt/Tangible Net worth	Times	3.79	2.40
Current Ratio	Times	1.18	1.29

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)

[Approach to Financial Ratios](#)



● **Manufacturing Companies**

Short Term Debt

Analytical Contacts	Media
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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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