

November 14, 2022 | Mumbai

Rating Rationale

M. K. Proteins Limited

Rating upgraded to 'CRISIL A/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.13 Crore
Long Term Rating	CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facility of M. K. Proteins Limited (MKPL; part of the Shree Ganesh group) to '**CRISIL A/Stable**' from 'CRISIL A-/Stable'.

The rating action reflects the significant improvement in the credit risk profile of the Shree Ganesh group, driven by healthy revenue growth and better operating margin. The financial risk profile of the group is expected to remain comfortable on the back of steady accretion to reserve, healthy capital structure and adequate debt protection metrics. The upgrade also factors in the healthy performance of the group backed by strong demand for end products, mainly in the personal care segment, and established relationships with large fast-moving consumer goods (FMCG) players.

The rating reflects the group's growing scale of operations and improved profitability, healthy financial risk profile and the extensive experience of the promoters in the specialty chemicals industry. These strengths are partially offset by low pricing power in a fragmented industry and intense price competition in the end-user segment.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of MKPL, Shree Ganesh Fats Pvt Ltd (SGFPL), Kamla Organics Pvt Ltd (Kamla Organics; formerly Shivalik Steels and Alloys Pvt Ltd), Kamla Oleo Pvt Ltd (KOPL) and SGF Industries Pvt Ltd (SGFIPL). All the companies, collectively referred to as the Shree Ganesh group, have similar business, common management and promoters, business synergies and fungible cash flow.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Growing scale of operations and improved profitability: The operating performance of the group continued to improve during fiscal 2022, with revenue growing more than 50% on-year to Rs 1,322 crore in fiscal 2022, following almost 80% growth to Rs 862 crore in fiscal 2021. The newly commissioned plant at Kolkata housed under SGFIPL saw a significant ramp up in scale, leading to a healthy increase in volume. This plant is integrated backward and was aimed for strategic geographical diversification. The other entities of the group continued to exhibit stable performance.

The operating profitability of the group improved to over 8% from 5-6% before capacity expansion, backed by improved supply chain management. The operating margin is expected around 8% over the medium term as supply contracts are based on cost plus conversion charges method.

- **Healthy financial risk profile:** The financial profile remains healthy with gearing improving to 0.52 time as on March 31, 2022, from 0.61 times a year earlier. The gearing is expected to reduce gradually over the medium term because of modest capital expenditure (capex) plan and focus on repayment of term loans. The debt protection metrics should remain healthy, with interest coverage expected around 9 times and net cash accrual to total debt ratio at 50-60% because of steady accretion to reserve and modest debt. The group will likely generate sufficient cash accrual to meet term debt obligation over the medium term.
- **Extensive experience of the promoters and strong relationships with customers:** The promoters have more than 25 years of experience in the soap noodles business. Also, the group has strong relationships with customers, resulting in repeat orders. The group is a major supplier to Hindustan Unilever Ltd (HUL; 'CRISIL AAA/Stable'), which accounts for the majority of its direct and indirect sales. The group has a plant close to HUL's soap manufacturing unit in Baddi, Himachal Pradesh. It also caters to HUL's vendors. Other customers include ITC Ltd (ITC; 'CRISIL AAA/Stable/CRISIL A1+'), Reckitt Benckiser India Ltd, Godrej Consumer Products Ltd ('CRISIL A1+'), and local cosmetic manufacturers.

Weaknesses:

- **Competitive end-user segment:** Intense competition in the FMCG industry has led to limited pricing power of players, which percolates to the vendors of FMCG players, such as the Shree Ganesh group. However, longstanding relationships, smooth supply chain management and plant in the vicinity of the customer's plant provides a competitive edge to the group. Moreover, post-pandemic market share of the organised FMCG players has increased, which has helped the group as its customers are primarily large, established players such as HUL, ITC and Godrej Consumer. These factors, along with cost plus conversion charges supply contracts, should help the group pass on raw material price fluctuations to customers and maintain its operating performance over the medium term.
- **Exposure to intense price competition in a fragmented industry:** Intense competition in the oleochemicals and soap intermediaries industry because of low entry barriers limits the group's bargaining power. However, the group is a moderately integrated player and has differentiated itself from the competition through better technology, presence across value chain and locational advantage.

Liquidity: Adequate

The Shree Ganesh group has adequate liquidity, driven by sufficient cash accrual to meet debt obligation, moderately utilised bank lines and modest capex planned over the medium term. The group also had adequate cash and equivalent as on March 31, 2022. The bank limits were utilised 40-60% on average during the 12 months through March 2022.

Outlook: Stable

The Shree Ganesh group will continue to benefit from its established relationships with key customers, improving geographical diversity and reducing customer concentration, and will likely sustain its healthy financial risk profile, supported by healthy cash generation.

Rating Sensitivity factors

Upward factors

- Substantial increase in scale with operating profitability maintained at 8-10%
- Continued diversification of the customer profile and product mix

Downward factors

- Sharp decline in revenue and in operating profitability impacting cash generation

Large, debt-funded capex, weakening the capital structure and debt protection metrics, with interest cover below 5 times

About the Group

Set up in 1994, the Shree Ganesh group manufactures distilled fatty acid (DFA) and soap noodles.

SGFPL is based in Baddi and has two units: one for hard oil and the other for DFA and glycerine with capacity of 150 tonne per day (TPD) each.

Kamla Organics, based in Baddi, manufactures soap noodles and has capacity of 150 TPD.

KOPL, based in Baddi, manufactures DFA with capacity of 100 TPD and soap noodles with capacity of 50 TPD.

MKPL, based in Ambala, manufactures vegetable refined oil for *vanaspati* mills and has capacity of 25 TPD.

SGFIPL, based in Kolkata, produces toilet soap noodles with capacity of 375 TPD, refined glycerine with capacity 40 TPD and lauric/myristic acid with capacity of 52 TPD.

Key Financial Indicators (consolidated)*

Particulars	Unit	2022	2021
Revenue	Rs crore	1322	862
Profit after tax (PAT)	Rs crore	59	42
PAT margin	%	4.5	4.8
Adjusted debt/adjusted networth	Times	0.52	0.61
Interest coverage	Times	8.86	8.38

*All figures are adjusted by CRISIL Ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure – Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit*	NA	NA	NA	13	NA	CRISIL A/Stable

*Fully interchangeable with letter of credit

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Shree Ganesh Fats Pvt Ltd	Full	Common management and promoters, business synergies
Kamla Organics Pvt Ltd	Full	Common management and promoters, business synergies
M K Proteins Ltd	Full	Common management and promoters, business synergies
Kamla Oleo Pvt Ltd	Full	Common management and promoters, business synergies
SGF Industries Pvt Ltd	Full	Common management and promoters, business

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	13.0	CRISIL A/Stable		--	25-08-21	CRISIL A-/Stable	14-05-20	CRISIL A-/Stable	27-02-19	CRISIL A-/Stable	CRISIL A-/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit ^{&}	13	CRISIL A/Stable

& - Fully interchangeable with letter of credit

Criteria Details**Links to related criteria**

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Chemical Industry](#)

[Criteria for rating entities belonging to homogenous groups](#)

[CRISILs Criteria for Consolidation](#)

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