

## Rating Rationale

February 06, 2024 | Mumbai

### M. K. Proteins Limited

Rating reaffirmed at 'CRISIL A/Stable'

#### Rating Action

Total Bank Loan Facilities Rated	Rs.13 Crore
Long Term Rating	CRISIL A/Stable (Reaffirmed)

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 reaffirmed its 'CRISIL A/Stable' rating on the long-term bank facility of M. K. Proteins Ltd (MKPL; part of the Shree Ganesh Fats [SGF] group).

The rating continues to reflect the healthy business risk profile of the group, marked by growth in revenue and stable profitability and its comfortable financial risk profile. The rating also factors in the extensive experience of the promoters in the specialty chemicals industry. These strengths are partially offset by low pricing power amidst intense price competition in the end-user segment.

The SGF group saw its operating performance improve, driven by healthy revenue growth of 28% and stable operating margin of 7.5% in fiscal 2023. Growth was driven by strong demand for end-products, mainly in the personal care segment, and established relationships with large fast-moving consumer goods (FMCG) players, with focus on continuous expansion of the customer base.

The financial risk profile should also remain comfortable, aided by steady accretion to reserves, a healthy capital structure and adequate debt protection metrics.

#### 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 SGF group, have similar businesses, 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 steady profitability:** Operating performance of the group improved in fiscal 2023, with revenue rising by 28% year-on-year to Rs 1,686 crore, as against 53% growth to Rs 1,322 crore reported in fiscal 2022. Plants commissioned in Kolkata and Gujarat (housed under SGFIPL and KOPL, respectively) contributed to the ramp up in scale, led by healthy increase in volume. The Kolkata plant is integrated backward and aims to enhance the geographical reach of the group. Other entities continued to exhibit stable performance.

Operating margin was modest at 7.5% in fiscal 2023, owing to hike in raw material cost. It is likely to remain steady at 7-8% over the medium term, aided by backward integration benefit and the cost plus conversion charges method based supply contracts.

- **Healthy financial risk profile:** The financial profile remains healthy with gearing improving to 0.19 time as on March 31, 2023, from 0.52 time a year earlier. Debt protection metrics should be comfortable, with interest coverage and net cash accrual to total debt ratios at 7-10 times and above 1 time, respectively, aided by steady accretion to reserve and modest debt-funded capital expenditure (capex) plans. The group will likely generate sufficient cash accrual to meet its short-term debt obligation.
- **Extensive experience of the promoters and strong relationships with customers:** The promoters' experience of 25 years in the soap noodles business has helped them maintain strong relationships with customers and ensure repeat orders. The group is a supplier to Hindustan Unilever Ltd (HUL; 'CRISIL AAA/Stable'), ITC Ltd (ITC; 'CRISIL AAA/Stable/CRISIL A1+'), Alliance World Manufacturing Ltd ('CRISIL BB+/Stable'; issuer not cooperating; rating withdrawn), Reckitt Benckiser India Ltd, Godrej Consumer Products Ltd ('CRISIL A1+'), and local cosmetic manufacturers.

**Weaknesses:**

- **Susceptibility to competition among FMCG players:** Intense competition among FMCG players limits their pricing power and the impact percolates to vendors, such as the SGF group. However, longstanding relationships with customers, proximity to their plants and smooth supply chain management, provide the group a competitive edge. Moreover, market share of organised FMCG players has improved post pandemic, which benefits the group. These factors, along with cost plus conversion charges in supply contracts, should help the group pass on raw material price fluctuations to customers and sustain its operating performance over the medium term.
- **Lack of pricing power against large customers:** The oleochemicals and soap intermediaries industry is extremely price-sensitive and marked by low entry barriers. This limits the bargaining power of players. However, the SGF group is moderately integrated, and has built differentiators through better technology, presence across the value chain and locational advantage.

**Liquidity: Adequate**

Liquidity is supported by sufficient cash accrual against modest term debt as on December 31, 2023, moderate bank limit utilisation and no major capex plan for the medium term. The group also had adequate cash and equivalents of Rs 52 crore as on March 31, 2023. Bank limit utilisation was 40-60% in KOPL during the 10 months through December 2023. There was negligible utilisation of limits in other entities of the group.

**Outlook: Stable**

CRISIL Ratings believes the SGF group will continue to benefit from its established relationships with key customers and improving geographical diversity and will sustain its healthy financial risk profile, supported by robust cash generation.

**Rating Sensitivity factors****Upward factors**

- Sustained growth in revenue and steady operating margin maintained at 8-10%.
- Sustenance of robust financial risk profile and healthy cash surplus.
- Continued diversification of the customer profile and product mix.

**Downward factors**

- Weaker-than-expected operating performance, leading to operating margin below 6% on a sustained basis.
- Any 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 SGF group manufactures distilled fatty acid (DFA) and soap noodles.

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

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

KOPL, based in Baddi, manufactures DFA with capacity of 150 TPD and soap noodles with capacity of 200 TPD.

MKPL, based in Ambala, manufactures vegetable refined oil for *vanaspati* mills and has capacity of 250 TPD.

SGFIPL, based in Kolkata, produces toilet soap noodles and DFA with combined capacity of 1,000 TPD.

**Key Financial Indicators (Consolidated)\***

Particulars	Unit	2023	2022
Revenue	Rs crore	1,686	1,322
Profit after tax (PAT)	Rs crore	71	59
PAT margin	%	4.2	4.5
Adjusted debt/adjusted networkth	Times	0.19	0.52
Interest coverage	Times	10.03	8.86

\*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.

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**Annexure - Details of Instrument(s)**

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

#### Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	13.0	CRISIL A/Stable		--		--	06-12-22	CRISIL A/Stable	25-08-21	CRISIL A-/Stable	CRISIL A-/Stable
			--		--		--	14-11-22	CRISIL A/Stable		--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit*	13	HDFC Bank Limited	CRISIL A/Stable

\*Fully interchangeable with letter of credit

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Chemical Industry</a>
<a href="#">Criteria for rating entities belonging to homogenous groups</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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