



## NCML INDUSTRIES LIMITED

### Issue Details

NCML Industries Limited (NCML) proposes to come out with an Initial Public Offering (IPO) of 60,00,000 shares, amounting to 25.48% of the post issue paid capital of the company. Of the total issue, not more than 10% of the offer shall be available to Qualified Institutional Buyers (QIB) bidders. 5% of the QIB portion shall be available for allocation on a proportionate basis to mutual funds only while the remainder of the QIB portion shall be available for allocation on a proportionate basis to all QIB bidders, including mutual funds, subject to valid bids being received at or above the offer price. Further, not less than 27% of the offer shall be available for allocation on a proportionate basis to non-institutional bidders and not less than 63% of the offer shall be available for allocation on a proportionate basis to retail individual bidders, subject to valid bids being received at or above the offer price. Under-subscription if any, in any category, except QIB portion would be allowed to be met with spill over from any other category or a combination of categories. Post the IPO, the shares will be listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

### Proposed Use of IPO Proceeds

The offer being made through the book building process is an “offer for sale”, with no fresh issuance of equity shares. The offer is being made by selling the stake of present shareholders and accordingly no funds will be raised by the proposed IPO.

### Analyst Contacts:

Subrata Ray  
[subrata@icraindia.com](mailto:subrata@icraindia.com)  
+91 22 6179 6386

Suprio Banerjee  
[supriob@icraindia.com](mailto:supriob@icraindia.com)  
+91 22 6179 6358

Aashay Choksey  
[aashay.choksey@icraindia.com](mailto:aashay.choksey@icraindia.com)  
+91 79 4027 1535

Rakshak Lodha  
[rakshak.lodha@icraindia.com](mailto:rakshak.lodha@icraindia.com)  
+91 79 4027 1534

### Relationship Contact:

L. Shivakumar  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)  
+91 22 6179 6393

### Website:

[www.icraratings.com](http://www.icraratings.com)  
[www.icra.in](http://www.icra.in)

### IPO Grading

ICRA has assigned an IPO Grade 3, indicating average fundamentals, to the proposed Initial Public Offering (IPO) of NCML Industries Limited (NCML). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

An ICRA IPO Grade is a symbolic representation of ICRA's current assessment of the fundamentals of the issuer concerned. The fundamental factors assessed include, among others, business and competitive position; financial position and prospects; management quality; corporate governance and history of compliance and litigation.

**Disclaimer:** Notwithstanding anything to the contrary: An ICRA IPO grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timeliness, or completeness of such information. An ICRA IPO grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further, the ICRA IPO grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such issuer nor can it be considered as an authentication of any of the financial statements of the company, and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA are provided on an “as is” basis, without representations and warranties of any nature.

## Strengths

- Long standing presence of the promoters in the edible oil business spanning more than four decades
- Strong revenue growth at a CAGR of 53% over FY09-14, mainly driven by retail sales
- Buoyant growth prospects for the edible oil market in India
- Retail presence in northern India with products sold under multiple brands; extensive dealer and distribution network across seven states
- Modest capital structure (gearing of 1.05 times as on 31<sup>st</sup> March 2014)

## Concerns

- Limited brand presence of the company's products outside north India with retail sales largely focused in 6-7 northern states
- Limited scope for growth in the refining segment with the plant currently operating at over 100% utilisation levels
- Decline in duty differential between crude and refined oil may expose the industry to threats from imported refined oil
- Increasing competitive pressures from the existing trading houses and new entrants, particularly multinationals in the higher end segment
- Earnings prospects vulnerable to the inherently low margins in the business and volatility in movements of crude edible oil prices

## Grading Rationale

The IPO grade assigned by ICRA reflects the long standing presence of the promoters in the edible oil business, strong revenue growth witnessed during five year period (FY09-14), owing to buoyant demand outlook for the domestic edible oil industry and extensive dealer and distributor network spread across seven states in north India. Further, the grade factors in the average financial risk profile characterised by improving profitability and modest capital structure at present. The grading is however constrained by the highly competitive nature of the domestic edible oil industry and limited brand presence of the company's products outside north India. Additionally, the grading factors in limited growth prospects due to the refinery operating at full capacity and threat from imported refined oil, in case of decline in duty differential between crude and refined oil imports. Further, the grading also takes into account the vulnerability of NCML's profitability to adverse raw material and currency related fluctuations in a business segment where margins are relatively low.

## Entity Profile

NCML Industries Limited (NCML) promoted by Mr Mohanlal Jain, Mr Rajnish Jain, Mr Manish Jain and Ms Suman Jain, is the flagship company of the 'NCML' Group. NCML was incorporated as Newal Chand Mohan Lal Jain Private Limited in September, 1996, following which it was converted into a public limited company and renamed as NCML Industries Limited in December 2010. The company was initially engaged in trading of edible oil and commenced import of palm oil in FY04. During FY12, the company set up its own refining unit with an installed capacity of 350 Tonnes Per Day (TPD) at Khasra, Uttar Pradesh. The refining capacity was further enhanced by 250 TPD, thus taking the total installed capacity of the refinery to 600 TPD currently.

## Promoters and Management

NCML's promoters have a long history of over four decades in the edible oil business. The group's business activities have evolved over a period of time from commodity trading to refining of edible oil. The company's overall management is headed by Mr Rajnish Jain, Chairman & Managing Director, who is the son of Mr. Mohan Lal Jain and grandson of the founder of the NCML group, Mr. Newal Chand Jain. Additionally, the operations are also managed by his younger brother, Mr Manish Jain. NCML's management is well represented by promoters, family members as well as qualified professionals from the edible oil industry.

**Pre- and post- Issue shareholding structure:** Currently, promoters (35.67%) and promoter group companies (11.74%) together hold 47.40% shareholding of the company. Besides this six body corporates collectively hold

the remaining 52.60% of shareholding. The proposed public issue will not dilute the promoter's direct holding who will continue to hold 47.40% of the post issue paid up capital of the company.

**Table 1: Pre- and post- Issue Shareholding Pattern of NCML**

Particulars	Pre-Issue	Post-Issue
	% Holding	% Holding
<b>A. Promoter and Promoter Group</b>		
Promoters	35.67%	35.67%
Promoter Group	11.74%	11.74%
<b>Sub-Total</b>	<b>47.40%</b>	<b>47.40%</b>
<b>B. Public Shareholding</b>		
Body Corporates	52.60%	27.12%
Public Issue	-	25.48%
<b>Sub-Total</b>	<b>52.60%</b>	<b>52.60%</b>
<b>Total (A+B)</b>	<b>100.00%</b>	<b>100.00%</b>

Source: DRHP

## Corporate Governance

The Board of Directors of NCML is comprised of two promoter directors and two independent directors. In order to meet the corporate governance requirements under Clause 49 of the Securities and Exchange Board of India (SEBI) for listed companies, NCML has also constituted two committees: Audit and Shareholders' Investor Grievance committees

## Business and competitive position

### *Diversified product offering a source of strength and flexibility*

NCML has a wide range of edible oils in its product portfolio for catering to the needs of all consumer and geographic segments. This also helps the company in mitigating the seasonality risk associated with a particular product/raw material, as also the changing consumption pattern that can result from the steep price volatility in any particular oil category. The company trades in and refines crude palm, mustard, soyabean, sunflower and cottonseed oil. A wide product range provides a competitive edge to the company and the flexibility of changing its product mix as per the market demand and price situations.

### *Refining operations has helped in boosting revenue*

The company, being already involved in trading of crude edible oil as well as packaging and sales of refined edible oil, set up a 350 TPD refining unit in FY12. NCML could scale up the refining operations significantly in a short span of time due to its established presence in the retail space since 1999. With more than 85% of utilisation levels achieved by the end of FY13, the company increased the refining capacity to 600 TPD in FY14. The increased capacity came on line from Dec 2013 onwards.

**Table 2: Refinery Capacity Utilization**

Particulars	Unit	FY12	FY13	FY14	5M FY15
<b>Installed capacity<sup>1</sup></b>	TPD	350	350	600	600
<b>Annualized installed capacity</b>	TPA	127,750	127,750	154,365 <sup>#</sup>	219,000
<b>Production</b>	MT	18,375	108,430	154,341	98,819
<b>Capacity utilisation</b>	%	<b>70%*</b>	<b>85%</b>	<b>100%</b>	<b>108%</b>

<sup>1</sup> The daily installed capacity has been estimated assuming 22 hours of operations per day. However, the company has been able to operate the plant on a continuous basis with close to 24 hours of operations per day which has enabled the company to achieve utilisation levels of more than 100% during current fiscal.

Source: Company, \*calculated considering 75 days of operations during FY12

#Annualized capacity calculated taking into account 350 TPD capacity for 8.5 months and 600 TPD capacity for 3.5 months

NCML's refinery is supported by uninterrupted power supply with a dedicated 33 KV line and a 1500 KVA supply connection; backup generator with capacity of 1300 KVA to continue production in case of interruption in power supply. Additionally, the company, in order to benefit from accelerated depreciation, has set up seven windmills in Tamil Nadu over last six years with total capacity of 6.6 MW. The company has power purchase agreements (PPA) with Tamil Nadu Generation & Distribution Corporation (TANGENDCO) for a period of ten years for all seven windmills. The company has 25 storage tanks with combined storage capacity of ~13,000 MT.

**Revenue profile is dominated by sale of palm oil, with the mix between palm and other oils varying annually to certain extent according to the prevailing prices; increased focus on sale of refined oil has resulted in declining contribution of trading sales**

Contribution of palm oil to the total sales has been the highest over the years, as can be seen in the table below

**Table 3: Revenue Profile**

	FY13 (Rs Cr)	%of total sales	FY14 (Rs Cr)	%of total sales	5M FY15 (Rs Cr)	%of total sales
<b>Trading</b>						
Palm	1042	53%	1403	51%	636	45%
Soya & Others	246	12%	238	9%	116	8%
<b>Total Trading Sales</b>	<b>1288</b>	<b>66%</b>	<b>1641</b>	<b>60%</b>	<b>752</b>	<b>53%</b>
<b>Manufacturing</b>						
Palm	499	25%	694	25%	426	30%
Soya & Others	176	9%	408	15%	237	17%
By products	3	0%	2	0%	1	0%
<b>Total Manufacturing</b>	<b>678</b>	<b>34%</b>	<b>1104</b>	<b>40%</b>	<b>665</b>	<b>47%</b>
<b>Total Sales</b>	<b>1965</b>	<b>100%</b>	<b>2745</b>	<b>100%</b>	<b>1417</b>	<b>100%</b>

Source: Company

As can be seen, palm oil, has been the main product of the company contributing about 75-78% (trading and manufactured combined) of the total sales in FY13 & 14. The contribution of palm oil to total sales has remained at the similar level in the current year. Besides palm oil, the contribution of soya bean oil has been reported to be the second highest during 5MFY15 at ~18%. The remaining 5-7% of revenue is derived from other edible oils including sunflower oil, mustard oil, blended mustard oil and cotton seed oil. With the enhancement of its refining capacity from 350 TPD to 600 TPD's in FY14, the contribution of trading sales to total sales has declined to 53% in 5MFY15 from ~66% in FY13 while contribution of refined oil products has increased from 34% to 47% during the same period.

Trading sales is largely carried out on "high sea sale" basis, mainly to domestic refiners, while manufactured or crude oil refined by NCML is sold either through an established dealer-distributor network or by way of institutional sales.

**About 70% of manufacturing sales derived from retail sales, extensive marketing and distribution network spread across north India as well as multiple brands to support the retail sales**

The company currently derives ~70% of manufacturing sales through retail channel with edible oils sold in multiple packaging sizes ranging from 200 ml pouches to 15 litre tin. The remaining 30% of manufacturing sales is derived from bulk sales to institutional customers including food products manufacturers and food processing units.

NCML has been involved in retail sale of refined oil since 1999 and has gradually expanded its brand presence across several states (Delhi, Uttar Pradesh, Punjab, Haryana, Uttarakhand, Jammu & Kashmir). Retail sales are

made under the multiple brand names including Maanik (Refined Soya-bean & Refined Cottonseed), Maanik Gold (Refined premium quality soya-bean), Shan (Refined Palm Oil), Moti (Mustard Pakki Ghani) and Pearl (Mustard Kacchi Ghani). In addition to the extensive dealer-distributor network, NCML has entered into long term agreements with C&F agents for the stocking of its products and supply to the dealers operating in the respective regions. As on date the company has nine C&F agents across seven states.

The company has sufficient packaging capacity to meet the current retail demand of the company's products. Further, NCML also has in-house capacity to manufacture tin boxes, bottles and jars of varying sizes.

***Healthy growth in sales volumes; stable contribution margins despite fluctuating realizations***

The sale volume has increased by 44% from 3.33 lakh MT in FY13 to 4.78 lakh MT in FY14. The main driver for the volume growth has been the wide distribution network of the company and overall growth in the domestic edible oil consumption. The sales realizations have witnessed a general upward trend over the years but fell in FY 14 (realization of traded palm oil declined from Rs 56 / kg in FY13 to Rs 53 / kg in FY14, while realization of refined palm oil declined from Rs 66 / kg to Rs 60 / kg during the same period) in line with the industry trends. The contribution margins have more or less remained stable, although it declined marginally from Rs 2.87 / kg in FY13 to Rs 2.74 / kg in FY14.

***Limited customer concentration risks; reputed customer profile comprising of large edible oil refiners and food processing companies***

The company sells its products through traders, distributors and to several large and medium sized institutional buyers as a result of which, the company's reliance on few customers' remains limited. Customer concentration as indicated by the percentage of total sales to the top 10 customers has declined from 48% in FY13 to 31% in 5MFY14. Going forward, increased focus on retail sales is expected to further reduce customer concentration levels.

***Procurement largely import based with palm oil and soyabean oil being the major products for the company***

The company largely procures edible oil (both crude and refined) through imports with ~94% of the procurement consisting of palm and soyabean oil. The company largely imports crude / refined palm oil from Malaysia and Indonesia while crude soyabean oil is imported from Argentina and Brazil.

In case of trading, NCML adopts 'Back to Back Sales' strategy for most of its imports, where in procurement is done on the basis of firm orders received from the customers taking into account the prevailing quotes from suppliers. Further, with established relations with overseas suppliers over the years, the company is allowed by the suppliers to adopt an 'Open Price Cargo' policy wherein procurement prices are fixed few days after the edible oil is shipped which provides additional time to the company to tie up the sales accordingly fix purchase price. More than 90% of trading revenue consists of high seas sales wherein the sales are made to domestic refiners and traders while the goods are in transit.

***Earnings and profitability are vulnerable to volatility in pricing scenario, duty differential between crude and refined edible oil and climatic risks associated with procurement of indigenous oilseeds***

The low margin nature of the industry and dependence on climatic factors for good harvest result in vulnerability of profitability of players like NCML in a volatile pricing scenario. The pricing for these agro-commodities also has linkages to crude oil prices with part of the agro-produce being used for bio-fuel purpose in times of high crude oil price scenario. Prices underwent a major drop after FY09 when the crude prices reduced from their highs. However, the prices for these agro commodities have shown upswing since then and are likely to remain firm given the impending demand supply mismatch situation and the depreciation in the rupee. The import duty structure in India had changed in January 2013, with a 2.5% duty imposed on import of crude palm oil for the first time, while the duty on import of refined palm oil was maintained at 7.5%. This negatively impacted the refiners in India as it reduced the refining margins further and made direct sourcing of refined oil more competitive. Indonesia (one of the largest producers of palm oil in the world), had gradually reduced the export duty on crude palm oil from as high as 18% in 2011 to 10.5% in August 2013, while the export duty on refined palm oil is maintained at 8% since October 2011. This aided the crude importers of India to some extent to compete against refined oil imports. In January 2014, the import duty on import of refined oil was raised to 10% from 7.5%, thereby improving the structure for Indian refiners and the structure continues to remain favourable as on date. However, as a combined effect of changes in the duty structures, the duty protection for indigenous refining companies has been under pressure and the margins would continue to remain under pressure from any changes in the duty structure implemented by GoI or exporting countries going

forward. Given the highly volatile pricing scenario and low margin nature of business, procurement at optimum cost is critical in the edible oil industry. The long experience of the promoters and the management team in this particular industry helps in mitigating the raw material price fluctuation risks to some extent.

***Profitability remains exposed to adverse currency related fluctuations although a significant percentage of the exposure remains hedged***

NCML's dependence on imported crude and refined oil exposes the company's profitability to currency related fluctuations, although a significant percentage of the exposure remains hedged at all times. There have not been any major foreign exchange losses in the past however with about 30-40% of the exposure remaining unhedged; the company's profitability would continue to remain exposed to adverse fluctuations in exchange rates.

**New Project: Risks and Prospects**

NCML does not have any expansion plans for increasing the installed capacity of its refinery, although the plant is currently running at full capacity. Further, the company plans to enter into other edible oil segments like groundnut and olive oil and diversify into other product categories like oleo chemicals in the medium to long term. Oleo chemicals are derived from plant and animal fats with wide application in manufacturing biodiesel, detergent, lubricants, green solvents and bio-plastics.

## Financial Position

***Healthy growth in turnover; margins have improved due to changing sales mix***

**Table 4: Key Profitability Metrics of NCML**

Particulars	FY11	FY12	FY13	FY14
Net Sales	1021.78	1653.80	1965.46	2744.98
Trading as % of Sales	100%	99%	66%	60%
OI	1023.24	1656.03	1969.38	2748.96
OPBDITA	22.33	43.88	87.90	118.49
PAT	13.82	33.06	45.07	55.22
EPS	10.35	15.73	19.14	23.45
EPS Growth		52%	22%	23%
NCA	15.83	37.98	55.24	66.30
OPBDITA/OI	2.18%	2.65%	4.46%	4.31%
PAT/OI	1.35%	2.00%	2.29%	2.01%
ROCE	22.45%	14.96%	17.30%	22.10%
RONW	29.07%	26.16%	20.06%	19.30%

Source: Company's Annual Reports

The operating income of NCML has grown at a healthy CAGR of 53% over FY 09 - FY14 driven majorly by sales of refined palm and soya bean oil following commencement of refining in Q4FY12. Besides this, trading volumes have also improved during the same period although the percentage contribution to total sales has declined. Traded sales contributed to around 60% of the company's turnover in FY14 vis-a-vis 100% trading sales in FY11. Consequently, operating margins have improved from 2.18% in FY 11 to 4.31% in FY14. Due to healthy growth in turnover and profits, the return indicators remain healthy, with RoCE at 22.10% and RoNW at 19.30% in FY14.

**Gearing levels have improved from previously high levels owing to equity infusion and healthy accrual generation**

**Table 5: Key Capital Structure and Coverage Metrics of NCML**

Particulars	FY11	FY12	FY13	FY14
Total Debt/Tangible Networth	3.35	2.84	0.80	1.05
Long term Debt/Tangible Networth	0.80	0.20	0.08	0.12
OPBDITA/Interest	0.97	1.67	2.30	3.45
Net Cash Accruals/Total Debt	8%	7%	27%	20%

Source: Company's Annual Reports

The gearing of NCML has improved to 1.05 times as on 31<sup>st</sup> March 2014 from 3.35 times as on 31<sup>st</sup> March 2011 due to regular equity infusion by promoters (increased from Rs 42.24 crore in FY11 to Rs 160.73 crore in FY13 end) and healthy internal accrual generation. The total debt of Rs. 330.25 crore as on 31<sup>st</sup> March 2014 includes Rs. 233.83 crore of working capital borrowings, Rs. 47.69 crore of term loans and Rs. 48.73 crore of unsecured loans. The debt coverage indicators witnessed marginal improvement with NCA/Debt at 20% and OPBITDA/Interest of 3.45 times in FY14.

**Liquidity requirements remain high for the business**

**Table 6: Key Working Capital Indicators of NCML**

Liquidity	FY11	FY12	FY13	FY14
Debtors Days	59	68	133	125
Days Inventory	15	6	16	34
Days Payables	143	98	134	107
NWC/OI	-17%	-5%	5%	13%
NCA/OI	2%	2%	3%	2%

Source: Company's Annual Reports

The working capital intensity (as measured by NWC/OI) of NCML has been increasing over the past few years. Since commencement of refining operations, the company has been ramping up its sales volume by extending liberal credit period of ~5 months to its customers as against ~2 months earlier. This coupled with increased inventory levels has resulted in increasing working capital intensity. The refining activity has necessitated the maintenance of inventory of ~one month requirement as against one week inventory maintained till FY12 owing to pure trading nature of business. The creditor days of the company has remained high at 100-140 days as the procurement is against 180 days LC

## Compliance and Litigation History

**Litigation History:** The company is involved various litigations relating to the normal course of business. However, the amount involved is small in most cases (with exception to two cases), with the total value of litigation cases against the company standing at Rs. 11.51 crore.

**Contingent Liabilities:** The contingent liabilities for NCML are primarily those relating to corporate guarantees given on behalf of its group company and contingent liabilities that arise during the normal course of business, such as bank guarantees given to various authorities in lieu of on-going litigation.

**Table 7: Contingent Liabilities of NCML as on March 31, 2014**

Contingent Liabilities	Rs. Crore
Corporate Guarantee	85.00
Bank Guarantee	9.39

<b>Total</b>	<b>94.39</b>
<b>As a % of TNW</b>	<b>30%</b>

Source: Company's Annual Reports





## ICRA Limited

### CORPORATE OFFICE

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300; Fax: +91 124 4545350

Email: [info@icraindia.com](mailto:info@icraindia.com), Website: [www.icra.in](http://www.icra.in)

### REGISTERED OFFICE

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50; Fax: +91 11 23357014

---

Branches: **Mumbai:** Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai:** Tel + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, Fax + (91 44) 2434 3663 **Kolkata:** Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore:** Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad:** Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad:** Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune:** Tel + (91 20) 2552 0194/95/96, Fax + (91 20) 553 9231

---

© Copyright, 2014 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.