Rani Aqua Feeds Private Limited
MAY 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	16.00 (Enhanced from 15.67)	**CARE B + ; Stable (Single B Plus; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	2.50	**CARE A4 (A Four)**	Assigned
Total Facilities	**18.50 (Rupees Eighteen crore and Fifty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rani Aqua Feeds Private Limited (RAFPL) continue to be constrained by limited track record and small scale of operations, working capital intensive nature of business, weak debt coverage indicators and intense competition in the industry with moderate growth prospects. However, the ratings continue to derive benefits from satisfactory experience of the promoters, moderate capital structure, proximity to the raw material sources and diversified product portfolio. The ratings also factor in marginal increase in total operating income coupled with improved profitability margins in FY16 (refers to period April 01 to March 31).

Going forward, the company's ability to increase its scale of operations, improve the capital structure and debt coverage indicators and manage working capital requirements efficiently would be key rating sensitivities

Detailed description of the key rating drivers

Key Rating Weaknesses

Limited track record and small scale of operations

FY16 was the third full year of operations for the company as it commenced business from November 2012. Thus, the company has a limited track record and accordingly has a small scale of operation as represented by total operating income of Rs.15.55 crore in FY16 and networth of Rs.14.03 crore as on March 31, 2016.

Working capital intensive nature of business

The company has to maintain high stock of inventory to ensure the optimum capacity utilization throughout the year. RAFL maintains inventory of 3-4 months. The operating cycle improved to 95 days in FY16 from 139 days in FY15 on account of decrease in collection period by 30 days and inventory days by 29 days during FY16. The working capital utilization was around 100% during the 12 months ended to fund inventory purchase

Weak debt coverage indicators

Debt coverage indicators remained weak during FY16. Total debt to GCA deteriorated from 20.07x during FY15 to 33.50x during FY16, on account of increase in debt levels coupled with decrease in gross cash accruals. The interest coverage ratio improved from 0.97x during FY15 to 1.45x during FY16 due to increase in PBILDT and decrease in interest expense

Intense Competition in the industry with moderate growth prospects

Andhra Pradesh and specifically the West Godavari region where the company operates is amongst the largest and efficient producers of rice in the country. The processing industry for rice is also abundant in the region which makes for intense competition. The abundant supply of raw materials and also the support machinery which is locally sourced, partially off-set the intense competition in the region. The demand for edible oil and demand for aqua culture feed manufacturing are also witnessing significant growth domestically and in the region, ensuring strong prospects for the company

Key Rating Strengths

Satisfactory experience of the promoters

The main promoter; Mr. K V Surendra is a first generation entrepreneur and has established track record of more than a decade in handling various business in the USA. However, the experience in the rice milling industry is relatively short. The other promoters; Mr. N. Ravi has been associated in the fish trading and cultivation business for about 15 years. The

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

promoters are supported by a team of experienced personnel down the line. The promoters have brought-in additional equity of Rs.1.15 crore during FY15 to support the business requirement.

Moderate capital structure

The capital structure of the company has been moderate during review period. The debt to equity deteriorated from 0.78x as on March 31, 2015 to 1.03x as on March 31, 2016, on account of increase in bank term loan for setting up fish feed manufacturing unit in AP. Furthermore, the overall gearing of the company deteriorated from 1.24x as on March 31, 2015 to 1.30x as on March 31, 2016 on account of reason mentioned above coupled with full working capital utilization.

Proximity to the raw material sources

Rice in three forms (raw, boiled and rough) is the primary raw materials for all the products. The supply of raw rice for rice bran plants is abundant in the surrounding region comprising, West Godavari, Krishna and Nellore districts. With one of highest land under cultivation and yield per acre (average of 3,700 Kg/hectare) in the region, rice availability is not a concern. The same also ensures adequate availability of paddy for processing as well as trading and also saves on the procurement & transportation costs. Backed by the location advantage, the company procures majority of paddy from the local agents as well as farmers based in the region. However, the raw material prices, which factor in the seasonal harvest conditions and Government Minimum Support Price (MSP), are highly volatile and thus have a bearing on the profitability.

Diversified product portfolio

The company has diversified product portfolio. During FY16, the company derived revenue of 31% from paddy A grade, 29% from rice, 19.50% from DOB, 16.50% from Rice Bran Crude Oil and 4% from other products (includes rice bran, broken rice , husk and gunnies)

Growth in total operating income coupled with improved profitability margins during FY16

During FY16, the total operating income increased to Rs. 15.54 crore from Rs. 13.44 crore in FY15 primarily on account of increase in demand from domestic market for the entire product but majorly from DOB and R B Oil segment. The company has achieved total operating income of Rs 60.00 crore during FY17 (provisional).

The PBILDT margin has improved from 9.99% in FY15 to 11.36% in FY16, due to increase in scale of operations resulting in absorption of fixed overheads. The PAT margins increased from 0.59% in FY15 to 0.84% in FY16 due to increase in PBILDT along with decrease in interest expense at the back of repayment in term loans. However, the margin remains thin during FY16

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]

About the Company

Rani Aqua Feeds Private Limited (RAFL) was earlier incorporated as Pallavi Industries Private Limited (PIPL) on April 02, 2006 and later renamed as Rani Aqua Feeds Private Limited on September 02, 2013. RAFL manufactures and sells paddy (A grade), processed rice, rice bran crude oil (for further processing to edible oils) and De-Oiled rice bran (DOB), primarily from rice purchased in the region. The company commenced commercial operation from November, 2012.The installed capacity of the plant is 100 TPD for rice milling and 150 TPD for the solvent extraction plant manufacturing crude oil.

PIPL was dormant from the date of inception. During the year June, 2012, it purchased the assets of Chaitanya Oils Limited (COL) for purchase consideration of Rs 15.48 crore (financed through debt and equity in the ratio 7:3). COL was a loss making unit in the same nature of business

In FY16, RAFPL reported a Profit after Tax (PAT) of Rs. 0.13 crore on a total operating income of Rs.15.55 crore, as against a PAT and TOI of Rs.0.08 crore and Rs. 13.44 crore respectively in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1

Details of 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-Term Loan	-	-	Sep-2024	10.00	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.50	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	10.00	CARE B+; Stable	-	-	1)CARE B+ (04-Mar-16)	1)CARE B+ (05-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable	-	-	1)CARE B+ (04-Mar-16)	1)CARE B+ (05-Mar-15)
3.	Non-fund-based - ST-Bank Guarantees	ST	2.50	CARE A4	-	-	-	-

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