Khattar Edibles Private Limited

February 02, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6.52 (Reduced from 6.77)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Total Facilities	**6.52 (Rs. Six Crore and Fifty-Two Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of Khattar Edibles Private Limited (KEPL) factors in the improvement in financial risk profile marked by growth in scale of operations and improvement in debt coverage indicators. The rating continues to derive strength from experienced management, moderate capital structure and moderate operating cycle. The rating, however, continue to remain constrained by risk associated with thin profitability margins and fragmented and competitive nature of industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Consistent increase in scale of operations as marked by total operating income of above Rs.150.00 crore.
- Improvement in profitability margins as marked by PBILDT and PAT margin above 8.50% and 2.00% respectively.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio of above 2.50x.
- Elongation in the operating cycle of the company beyond 60 days.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management: KEPL's is a family run business and its operations are currently being managed by Mr. Deepak Kumar and Mr. Umesh Kumar. Both of them are graduates by qualification and have accumulated experience of more than a decade in company's line of business through their association with this entity and other associate concern (currently not operational).

Growth in scale of operations and improvement in debt coverage indicators: The total operating income (TOI) of KEPL has increased to Rs.84.76 crore in FY21 from Rs.65.82 crore in FY20 reflecting a growth rate of 28.78% owing to higher intake from its existing customers. Further, the company has achieved a TOI of Rs.85.97 crore during 9MFY22 (refers to the period April 1 to December 31; based on provisional results).

Further, the debt coverage indicators of the company have improved as marked by interest coverage and total debt to GCA which stood at 3.15x and 2.93x respectively, during FY21 as against 2.90x and 6.07x respectively, during FY20. The improvement was mainly on account of higher PBILDT owing to increase in scale of operations consequently leading to higher gross cash accruals.

Moderate capital structure: The capital structure of the company as marked by overall gearing ratio stood moderate at 0.92x as on March 31, 2021 as against 11.16x as on March 31, 2020. Unsecured loans are treated as subordinated to debt as per the sanction letter. Thus, unsecured loans to the tune of Rs.8.70 crore is treated as subordinated to debt and the same have been added to the tangible net worth of the company in FY21.

Moderate operating cycle: The operating cycle of the company continue to remain moderate at 3 days for FY21 as against 16 days for FY20. The company maintains adequate inventory of around a month in the form of raw material to ensure uninterrupted manufacturing process. The products are mainly sold on cash basis with credit period of around a month allowed to few of its customers which results in an average debtor's period of 14 days for FY21. Similarly, it receives similar payable period from its suppliers which results in average creditor's period of around 17 days for FY21.

Key Rating Weaknesses

Thin profitability margins: The profitability margins of the company stood thin for the past three financial years i.e. (FY19-FY21) owing to competitive nature of industry. The company has two variants under rusks manufacturing with difference in profitability margins as the profitability margins are directly linked to variant sold. PBILDT margin of the company declined and stood at 6.59% in FY21 as against 7.53% in FY20 on the back of proportionate increase in overhead expenses. Further, PAT margin also stood at 0.84% in FY21.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

Fragmented and competitive nature of industry: The commodity nature of the product makes the industry highly fragmented with numerous players operating in the unorganized sector with very less product differentiation. In addition, launch of innovative strategy (such as competitive pricing, aggressive advertisement campaign, celebrity endorsements, etc.) by large multinationals to gain market share has increased the competition intensity as well. This results in limited flexibility over product pricing for the players in the industry.

Liquidity: Adequate
The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs.3.47 crore during FY21 and is expected to generate envisaged GCA of Rs.3.62 crore for FY22 against repayment obligations of Rs.2.62 crore. However, the company has low free cash & bank balances of Rs.0.61 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies

About the Company
Kolkata, West Bengal based Khattar Edibles Private Limited (KEPL) (CIN No. U74999WB2011PTC167696) was incorporated in September, 2011 and is currently managed by Mr. Deepak Kumar and Mr. Umesh Kumar. The company is engaged in the manufacturing of rusks. The manufacturing process of the company is located in Kushinagar, Uttar Pradesh having an installed capacity of 47 tonnes per day as on March 31, 2021. The company sells the product under the brand name "Honey Bunny", "Superstar" and "Guddu" to dealers & retailers based in Uttar Pradesh and Bihar.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22*
Total operating income	65.82	84.76	85.97
PBILDT	4.95	5.58	NA
PAT	0.58	0.72	NA
Overall gearing (times)	11.16	0.92	NA
Interest coverage (times)	2.90	3.15	NA

A: Audited; NA: Not Available
**refers to the period from April 1, 2021 to December 31, 2021.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure- 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September, 2025	6.52	CARE BB; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	6.52	CARE BB; Stable	-	1)CARE BB-; Stable (06-Jan-21)	1)CARE B+; Stable (26-Dec-19)	1)CARE B+; Stable (19-Dec-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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