

Bhagwati Lacto Vegetarian Exports Private Limited

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	446.90	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	54.60	CARE A3 (A Three)	Assigned
Total Bank Facilities	501.50 (₹ Five Hundred One Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Bhagwati Lacto Vegetarian Exports Private Limited (BLVEPL) derives strength from the experienced promoters, healthy order book position and various quality certifications received by the company. The ratings further derive strength from the favourable manufacturing location and established brand name along with strong customer relations.

The rating is, however, constrained by the customer concentration risk, moderate solvency position, susceptibility of margins to volatility in raw materials prices & foreign exchange fluctuations, monsoon dependent operations and presence of the company in a highly competitive & fragmented agro-processing business with a high level of government control.

Rating sensitivities

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

- Substantial and sustainable growth in the income with PBILDT margins improving to ~6%
- Overall gearing ratio improving to below 1.5x

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

- Significant decline in income below Rs.1000 crore
- Any further & significant deterioration with overall gearing ratio deteriorating to over 2x owing to debt funded capex, increased working capital reliance etc

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoters with established market position

BLVEPL was incorporated in 2007 with the commercial operations of the company commencing from 2008. The promoters, Mr. Sushil Mittal (Chairman & Managing Director) and Mr. Sameer Mittal, manage the overall operations of the company. They have a healthy industry experience of around three and a half decades and one and a half decades, respectively. Group concerns of the company include Bhagwati Lacto Foods Pvt. Ltd. is also engaged in a similar line of business since 2008 catering primarily to the domestic market. This has led to well established relations with customers as well-as the suppliers. Domestically, the company sells its products through a well-established network of distributors located all over India including reputed retails chains mainly under its own brand names. In the export market, the company sells mainly in bulk as well as under its various brands. On the export side, the company has also been participating in procurement of tenders from government trading houses since long.

Favorable manufacturing location

BLVEPL's manufacturing unit is located in Ferozepur, Punjab. The area is one of the hubs for paddy, leading to its easy availability. The unit is also in proximity to the grain market resulting in procurement at competitive rates. The presence of the operations in the vicinity of paddy producing regions gives it an advantage over competitors operating elsewhere in terms of

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

easy availability of the raw material as well as favorable pricing terms. The favorable location also puts the company in a position to cut on the freight component of the incoming raw materials.

Various quality certifications

The company is also a recognized Government Trading House and a three star export house. It has received accreditations including ISO 22000:2005, ISO 9001:2008 and the manufacturing facilities are also GMP (Good Manufacturing Practices) approved.

Increasing scale of operations and strong order book position

The total operating income of the company during FY22 has remained inline with the FY21 with improvement of ~0.67% in FY22. Further, the company has achieved revenue of ~Rs.703 cr as on H1FY23 and ~Rs.900 crore till November 30, 2022. Company has current order book of around Rs.580 crore which will be executed by March 31, 2022 and total order in hand of the company has around Rs.3000 crore which need to be executed with in a span of 3 years. Therefore the strong order book and long association with the customers provides revenue visibility in the short to medium term.

Moderate profitability margins

The PBILDT margins of the company stood moderate though declined marginally from 4.77% in FY21 to 4.28% in FY22 on account increase in the price paddy, however, PAT margins improved from 0.94% to 1.67%, the improvement is on account of decline in the interest cost incurred by the company. Further in H1FY23, the PBILDT margin and PAT margin stood 4.71% and 1.28% respectively. The lower profitability margin is due to the highly competitive market and limited value addition. Also the company has limited presence in the retail market, which further reduces the scope for any increase in the profitability margins. Despite of the lower margin, due to higher scale of operations the GCA of the company stood at Rs.28.03 crores during FY22 as compared to Rs.16.70 crores during FY21.

Key rating weaknesses

Customer concentration risk

In FY22, top five customers contributed ~43.94% (PY: ~37.80%) of the total income, while BLVEPL's top customer, Alishan trading co LLC, UAE contributed 14.45% of the total revenue in FY22 [PY: Government Trading Corporation of Iran contributed ~15.52%. The risk is also mitigated to some extent as the company has been able to procure regular orders from both domestic and export clients. On the export side, the company engages in procuring of tenders from clients based in Qatar, Iran, UAE etc. As per the management the company has been able to procure regular tenders from ATC and GTC for the last 6-7 years. All this reflects an established relationship of the company with its clientele, which aids regular procurement of sales orders and therefore mitigates the risk associated with a concentrated revenue stream.

Moderate solvency position

The company had minimal long-term debt of Rs. 0.08 cr as on March 31, 2022. The capital structure of the company viz. the overall gearing ratio stood around previous year's levels at 1.48x as on March 31, 2022 as compared to 1.47x as on March 31, 2021. The total debt to GCA ratio improved to 13.66x, as on March 31, 2022, (PY: 20.68x). The interest coverage ratio of the company remained at a moderate level of 1.86x in FY22 as compared to 1.55x in FY21 with the improvement on account of lower interest expenses. The interest expense of the company has been reducing over the years due to better working capital management and reduction in debt.

Susceptibility of margins to fluctuation in raw materials prices & foreign exchange fluctuations with prospects also dependent on climatic conditions

Agro-based industry is characterized by its seasonality owing to its dependence on the availability of raw materials, which further varies with different harvesting periods. The price of rice moves in tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions. The timing of monsoons has a huge bearing on crop availability which determines the prevailing paddy prices. The profitability margins are therefore susceptible to the risk of any adverse price movement in the raw material prices which have remained fluctuating in the past. Furthermore, BLVEPL is engaged in the export of Basmati rice to the Middle East, Canada, Australia, Europe etc., where the primary currency of dealing for the company remains US dollars. This exposes the profitability margins of the company to any adverse movement in the foreign exchange rates. Though the company hedges a part of the exposure by booking forward contracts, the remaining exposure is kept unhedged.

Competitive & fragmented nature of industry coupled with high level of government regulation

The commodity nature of the product makes the rice processing industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive.

Liquidity: Adequate

The liquidity ratios remained adequate with current ratio and quick ratio of 1.44x and 1.00x respectively, as on March 31, 2022, as compared to 1.50x and 1.14x respectively, as on March 31, 2021. The terms loans are minimal in the company having lower repayment thus resulting in adequate repayment capabilities. Further company has healthy GCA in FY22 i.e Rs. 28.03 crore as against term debt obligation of Rs.5.32 crore and expected to be improved in future.

The operating cycle of the company elongated slightly from previous year to ~136 days as on March 31, 2022, from ~128 days as on March 31, 2021, owing to higher debtor days and inventory days. As November to March are the harvest season for the paddy and therefore inventory levels are at higher level at this time. Due to the working capital intensive operations, the average utilization of the working capital limits stood at around ~95.90%

Analytical approach: Standalone

Applicable criteria

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

About the company

Incorporated in 2007, BLVEPL is engaged in the processing of paddy since FY08. The company operates at its single manufacturing facility in Ferozpur, Punjab with an installed capacity of 32TPH (tonnes per hour). BLVEPL is primarily engaged in the export of Basmati rice to the Middle East, Canada, Australia, etc. with income from exports constituting around 54% of the total operating income in FY22. The company also caters to the domestic market through a network of distributors and wholesalers located all over India. While in the domestic market, the company sells rice mainly under its own brand names- 'GARIMA' and 'KASTURIKA', 'RADHIKA', 'KIRPA SAGAR', 'RAMESHWARI' etc.; on the export side, majority of the sales are made in bulk. Group entities of the company include Bhagwati Rice Mills (BRM) and Bhagwati Lacto Foods Private Limited with the former having lease income only.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	1409.22	1418.66	703.30
PBILDT	67.19	60.73	33.14
PAT	13.23	23.75	8.98
Overall gearing (times)	1.47	1.48	NA
Interest coverage (times)	1.55	1.86	1.76

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	411.10	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31-12-2026	35.80	CARE BBB-; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	10.60	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	44.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital Limits	LT	-	-	1)Withdrawn (01-Apr-22) 2)CARE BBB-; Stable (01-Apr-22)	1)CARE BBB-; Stable (05-Apr-21)	-	1)CARE BBB-; Stable (07-Jan-20)
2	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB-; Stable (01-Apr-22) 2)Withdrawn (01-Apr-22)	1)CARE BBB-; Stable (05-Apr-21)	-	1)CARE BBB-; Stable (07-Jan-20)
3	Non-fund-based - LT-BG/LC	LT	-	-	-	1)Withdrawn (05-Apr-21)	-	1)CARE BBB-; Stable (07-Jan-20)
4	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	1)CARE A3 (01-Apr-22) 2)Withdrawn (01-Apr-22)	1)CARE A3 (05-Apr-21)	-	-
5	Fund-based - LT-Term Loan	LT	35.80	CARE BBB-; Stable				
6	Non-fund-based - ST-Letter of credit	ST	44.00	CARE A3				
7	Fund-based - LT-Cash Credit	LT	411.10	CARE BBB-; Stable				
8	Non-fund-based - ST-Credit Exposure Limit	ST	10.60	CARE A3				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Credit Exposure Limit	Simple
4	Non-fund-based - ST-Letter of credit	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 instruments: CARE Ratings 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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