# Krish Cereals Private Limited

February 06, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 23.00 | CARE C; Stable | Revised from CARE B; Stable (Single B; Outlook: Stable) |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The rating assigned to the bank facilities of Krish Cereals Private Limited has been revised on account of stretched liquidity position leading to overutilisation of working capital limits and delays in debt servicing (on debt not rated by CARE), and low profitability margins. Further, the ratings are also constrained by weak coverage indicators, seasonality associated with the industry and working capital intensive nature of operations and susceptibility to fluctuation in raw material prices to profitability margins. However, the rating derives strengths from experienced promoters and favourable location of operations.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Substantial improvement in scale of operations to above Rs.300 cr with PBILDT margins improving significantly to ~5%, on a sustained basis with overall gearing ratio improving to below 2x, and TDGCA ratio improving to around 10x, on a sustainable basis.

**Negative factors**

- Significant reduction or discontinuance in the funding support from the promoter group going forward
- Any major debt funded capex resulting in deterioration of capital structure with overall gearing deteriorating further beyond 3.00x caused by increased working capital reliance or debt funded capex.

**Analytical approach**: Standalone

## Key weaknesses

**Overdrawals in the working capital limits and delay in the loans**

As per the written feedback of the banker dated January 25, 2023, there has been few instances in servicing the debt obligations as the company belongs to a seasonal industry. These delays are in off seasons mostly. However, all the dues have been repaid as on date and the conduct of the account is satisfactory. The term loans are not rated by CARE Ratings and are, therefore, not recognized as Default as per the CARE's policy on the Default recognition. Also, as per the bank statements received from the company, there has been several instances of overdrawals in the working capital limits also, however, the same has been repaid in a maximum of 8 days.

**Low Profitability Margins with weak Coverage Indicators**

The profitability margin declined marginally over previous year and remained low marked by PBILDT margin of 1.32% in FY22 as against 1.44% in FY21. The decline was due to higher material cost on proportionate basis as well as higher employee expenditure. Further, PAT Margin remained stagnant and low with previous year at 0.11% during FY22. The interest coverage ratio of the company is 1.26x in FY22 (PY-1.32x), the decline in the interest coverage ratio is on account of lower PBILDT in FY22. The TOI of the company has remained stable with revenues of Rs 239.7 crores in FY22 (PY-Rs 237.14 crores). The company has done sales of 150 crores till December.

**Susceptibility to fluctuation in raw material prices and monsoon dependent operation**

Agro-based industry is characterized by its seasonality, due to its dependence on raw materials whose availability is affected directly by the vagaries of nature. 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 monsoon has a huge bearing on crop availability which determines the prevailing paddy prices. Since there is a long time lag between raw material procurement and liquidation of inventory, the company is exposed to the risk of adverse price movement resulting in lower realization than expected.

**Fragmented nature of industry coupled with high level of government regulation**

The commodity nature of the product makes the 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. Furthermore, the raw material (paddy) prices are regulated by the

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

government to safeguard the interest of farmers which limits the bargaining power of rice mills over the farmers. Given the fact that prices for finished products is market determined while the cost of raw material is fixed by Government of India through the MSP (Minimum Support Price) mechanism, the profitability margins remain vulnerable, especially in times of high paddy cultivation.

**Working capital intensive nature of operations**

The average operating cycle of the company remained elongated at ~90 days during FY22 (PY-8 Days). The company generally receives payment in around 3 months from the customers leading to the average collection period of 84 days in FY22 which deteriorated from ~68 days in FY21. On the raw material procurement side, the company gets a credit period ranging between 30-60 days. This led to average creditors' period of ~44 days in FY22.

## Key strengths

**Experienced promoters with long track record of operations in the rice industry**

The operations of the company are currently being managed by Mr. Kamal Singla and Mr. Dinesh Kumar. Both are having an experience of half a decade in the rice industry through their association with the company. There is also an experienced team of professionals for carrying out the day-to-day operations of the company. The promoters & related parties of the company have also infused unsecured loans which are subordinate to term loans.

**Favourable manufacturing location along with established business relationship with customers and supplier**

The company's manufacturing units are located in Nissing (Karnal, Haryana). This area is a hub for paddy/rice, leading to its easy availability. The company was established in 2010, with the promoters having an experience of a decade in the rice industry through their association with the company. Further, favourable location of the plant in close proximity to paddy growers in Haryana has led to development of long-term relationships with the suppliers and therefore easy procurement of raw materials. On the customer side, long track record has enabled the company to establish strong business relationships with its clientele in the market, which in turn leads to repeat orders.

## Liquidity: Stretched

The working capital utilisation has remained almost fully utilised with frequent overdrawals along with delays in repayment in servicing the GECL loan. As per the interaction with the banker dated January 25, 2023, there are recent delays in the repayments of the term loan obligations. However, all the dues have been repaid as on date and the conduct of the account is satisfactory. The term loans are not rated by CARE Ratings and are, therefore, not recognized as Default as per the CARE's policy on the Default recognition. The debt repayment obligation in FY23 is 1.99 crores against the projected GCA of Rs 0.85 crores. Also, the cash and cash equivalents of the company has decreased from Rs 0.42 crores to Rs 0.16 crores in FY22.

## 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

KCPL is engaged in the business of milling and processing of basmati rice. The company is also engaged in the procurement of semi-processed rice from the market which is further processed through color sorter and grading machines to remove the impurities. The company has an installed manufacturing capacity of 16 metric tonnes per hour in Nissing (Karnal, Haryana). The operations of KCPL are presently being managed by Mr. Kamal Singla and Mr. Dinesh Kumar.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | 6MFY23 (P) |
|---|---|---|---|
| Total operating income | 237.14 | 239.70 | 54.1 |
| PBILDT | 3.45 | 3.16 | NA |
| PAT | 0.25 | 0.26 | NA |
| Overall gearing (times) | 0.84 | 0.74 | NA |
| Interest coverage (times) | 1.32 | 1.26 | NA |

A: Audited, P:Provisional, NA: Not Available

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

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

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

## 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 | | - | - | - | 23.00 | CARE C; Stable |

## 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-Cash Credit | LT | 23.00 | CARE C; Stable | 1)CARE B; Stable (05-Apr-22) | 1)CARE C; ISSUER NOT COOPERATING* (28-Feb-22)<br><br>2)CARE C (10-Jun-21) | 1)CARE BB-; Stable; ISSUER NOT COOPERATING* (16-Mar-21) | 1)CARE BB; Stable (11-Feb-20) |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** NA

### Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |

### Annexure-5: Lender details

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| To view the lender wise details of bank facilities please click here |

**Note on the 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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**About us:**

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