Krish Cereals Private Limited

June 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	23.00	CARE C (Single C)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable; (Double B Minus; Outlook: Stable)
Total Bank Facilities	**23.00 (Rs. Twenty-Three Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Krish Cereals Private Limited (KCPL) takes into account the recent delays in the repayment obligations of term loans availed by the company, deterioration in the financial risk profile of the company in FY20 (refers to April 01 to March 31) characterized by decline in scale of operations, profitability margins and weak debt coverage indicators with high term loan repayment obligations. The ratings are also constrained by the customer concentration risk, susceptibility of margins to foreign currency fluctuations and high level of competition. The ratings, however, continue to derive strength from the long track record with experienced promoters extending funding support, favorable location of operations, diversified product portfolio, and semi-integrated nature of operations and established market position.

Rating Sensitivities

Positive factors

- Growth in the operating income to around ~Rs.300 Cr. with PBILDT margins improving to ~5%
- Improvement in the overall gearing ratio to below ~2x and total debt to GCA to below ~10x

Negative factors

- Significant reduction or discontinuance in the funding support from the promoter group going forward
- PBILDT margin falling significantly to below 1.40 % on a sustained basis
- Any major debt funded capex resulting in deterioration of capital structure with overall gearing deteriorating further beyond 3x caused by increased working capital reliance or debt funded capex.

Detailed description of the key rating drivers

Key Rating Weaknesses

Recent delays in the repayment obligations in term loans: KCPL has been sanctioned Covid related loans of Rs. 2.30 cr (repayable in 18 monthly instalments starting January, 2021) and 4.60 cr (repayable in 36 monthly installments starting August, 2021). As per the interaction with the banker dated June 07, 2021, 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. KCPL's track record in timely debt servicing going forward would be key rating sensitivity.

Declining scale of operations, low profitability margins with weak solvency position: The total operating income of the company has declined by ~11% to 249.29 crore in FY20 (PY: Rs.281.11cr.). Further, in FY21 (Prov.), operating income of the company declined by ~5% to Rs. 236.40 cr on account of impact of Covid19 on the operations of the company and lower realizations. The PBILDT margins of the company remained low and declined to 1.48% in FY20 (PY: 1.63%), however the PAT margins improved marginally to 0.11% (PY: 0.09%). The debt equity ratio and overall gearing ratio remained leveraged at 1.15x and 2.54x as on March 31, 2020, however, the same improved from 1.58x and 3.16x, respectively as on March 31, 2019. The total debt to GCA ratio of the company stood weak at 46.40x, as on March 31, 2020. However, the same improved marginally on a y-o-y basis from 50.74x as on March 31, 2019.

Elongated operating cycle: The operating cycle of the company continued to remain elongated at ~87 days as on March 31, 2020 (PY: 101 days).

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 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.

Key Rating Strengths

Experienced and resourceful 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 to fund various business requirements of the company.

Favorable manufacturing location along with established business relationship with customers and suppliers: 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, favorable 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 average utilization of the working capital limit remained at ~97% for the last twelve-month period ended April-2021***.*** Further, the company has an external debt repayment obligation of Rs. 2.56 cr. for FY22 which is projected to be met from the internal accruals and cash flow from operations. The liquidity profile of KCPL is being supported by regular infusion of funds by the promoters in the past. There are no major capex plans in the near future for the company. The current ratio and quick ratio stood at 1.38x and 0.49x respectively, as on March 31, 2020 as compared to 1.86x and 0.88x respectively, as on March 31, 2019. KCPL had a free cash and bank balances and liquid investments of Rs. 0.43 Cr. as on March 31, 2020. The operating cycle of the company stood elongated at ~87 days as on March 31, 2020 as compared to ~101 days as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's policy on default recognition
Liquidity analysis of Non-financial sector entities

About the Company

KCPL is engaged in the business of milling and processing of basmati rice. In FY20, the company achieved ~98% of the total income from the domestic market and remaining ~2% from the export market (sales to UAE). 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	281.11	249.29
PBILDT	4.59	3.69
PAT	0.26	0.26
Overall gearing (times)	3.16	2.54
Interest coverage (times)	1.32	1.37

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified Krish Cereals Private Limited as “Not cooperating” vide its press release dated June 03, 2021. ICRA has conducted the review on the basis of best available information and has classified Krish Cereals Private Limited as “Not Cooperating” vide its press release dated May 29, 2020.

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	23.00	CARE C

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	-	-	-	-	-	1)Withdrawn (29-Oct-18) 2)CARE BB-; ISSUER NOT COOPERATING* (12-Jul-18)
2.	Fund-based - LT-Cash Credit	LT	23.00	CARE C	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (16-Mar-21)	1)CARE BB; Stable (11-Feb-20)	1)CARE BB+; Stable (29-Oct-18) 2)CARE BB-; ISSUER NOT COOPERATING* (12-Jul-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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

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

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