KRBL Limited (Revised)

September 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper (Carved out)*	500.00	CARE A1+	Reaffirmed

*Carved out of the sanctioned working capital limits of the company
Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the commercial paper instrument of KRBL Limited (KRBL) continues to derive strength from the experienced promoters with a long track record of operations in the rice industry. The company has an established brand name and market position in the basmati rice industry both, in the domestic and export markets. It is backed by a robust selling and distribution network, integrated operations, and diversification in renewable energy segment as an alternate source of revenue. The rating also takes into consideration KRBL's in-house research and development (R&D) capabilities, strong market share in the Middle East countries with a premium pricing over the industry average, strong financial profile marked by comfortable solvency and the strong liquidity position. CARE notes the buyback of shares worth Rs. 325 crores announced by the company in August 2023. The same is not likely to have any material impact on liquidity profile of the company.

These rating strengths are, however, partially offset, by the inherently working capital-intensive nature of operations, driven by high inventory levels required to be maintained owing to the seasonality of the availability of basmati paddy (October to December). The sizeable inventory levels coupled with volatility in prices of basmati paddy and rice expose the company to inventory price risk, which gets cushioned by the premium pricing due to KRBL"s strong brand and the ageing of inventory .- Further the company remain vulnerable to the volatility in raw material prices, the vulnerability of trade due to changes in government policies as export accounts for a sizeable part of the revenues, the foreign exchange risk, and the fragmented nature of the industry. In July 2023, the GoI has announced the ban imposed on export of non-basmati white rice with immediate effect, however, the same doesn't have any significant impact on the operations of the company as it had exported ~8% of total rice revenue in FY23.

CARE Ratings Limited (CARE Ratings) notes the ongoing litigations and investigations. As of date, these events does not lead to any adverse impact on its healthy operation and financial risk profile. Nonetheless, CARE Ratings will continue to monitor the developments in this matter and any adverse impact of the same on the credit profile of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not Applicable

Negative factors

- Any adverse developments with regard to ongoing investigations against the promoters which may have an impact on operations or credit profile of KRBL.
- Significant debt-funded capex resulting in a deterioration of the capital structure, with total debt to PBILDT increasing to more than 1.0x on a sustained basis.
- Adverse changes in the import policies of key importing countries affecting the prices of basmati rice and the profitability of the company.

Analytical approach:

Consolidated

All the below mentioned entities are operationally integrated with KRBL and under the same management. As such, a large part of the business is conducted through KRBL, but these entities have strong linkages from the management and operational perspectives.

The subsidiaries comprise the following:

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

Name of the Subsidiary	Country of Incorporation	Shareholding (%) as on March 31, 2023
KRBL DMCC Group	UAE	100
KB Exports Private Limited	India	70

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key strengths

Long track record of operations in the basmati rice industry and strong brand presence and widespread distribution network: KRBL was incorporated in 1993 and has grown multi-fold both, in terms of revenue and operations. The company has 14 rice brands under its banner. 'India Gate', which is the flagship brand of the company, is quite popular in the Indian as well as in international markets and has derived 55% of its total revenue in FY23, which indicates a strong market presence and acceptability. KRBL has a strong presence in international markets (75 countries) and the Middle East countries. It has a strong presence in Middle East countries such as Saudi Arabia, the UAE, Kuwait, Qatar, Oman, and Bahrain, among others. The Middle East region accounted for nearly 67% of KRBL's total export sales during FY23. The company is among the largest branded basmati rice player in these countries. Furthermore, the company's facilities are suitably located in Punjab, Uttar Pradesh, Haryana, Delhi and Gujarat ensuring easy access to the key raw material, paddy, which is mainly procured during the harvest season (October to January). In June 2023, the company started commercial production in its new plant in Anjar, Gujarat.
KRBL, over time, has built up a strong distributor network both, in the domestic and international markets, with around more than 750 dealer-distributors all over India and has one distributor per country for its overseas markets, except in the US, where it has a distributor for every state. The company tagged more than 3.3 lakh retail outlets in over 750 cities. Additionally, it has strong tie-ups with several domestic retail chains, including Food Bazaar, Spencer's, Dmart, Reliance Retail, Vishal MegaMart, NMart, VMart, Star Bazaar, Nature's Basket, etc. The company has recently collaborated with Zomato and Swiggy for doorstep delivery of products during the COVID-19-led lockdown.

Presence across the value chain: Being India's first integrated rice-producing company with a comprehensive product chain and diversification in health foods, KRBL is one of the largest fully integrated rice companies. It has, over the years, developed its presence – right from seed development and distribution, the farming stage and milling of paddy, and selling of finished rice. It is engaged in the production of value-added by-products like bran oil, de-oiled cakes, and uses of rice husks for captive power plants and production of furfural. The company has a large base of contract farmers in the country, with around 95,000 farmers spread across about 300,000 hectares. Over the years, the company has developed rice brands such as India Gate, Nur Jahan, Telephone, Train, Unity, and Bab Al Hind to meet the requirements of different categories of consumers.
KRBL is diversifying its product portfolio by including health foods in its portfolio. In FY17 and FY18, it launched new products like 'India Gate Quinoa', 'India Gate Sprouted Brown Rice', 'India Gate Flax Seed', and 'India Gate Chia Seed'. In April 2021, 'India Gate rice flour' was introduced in the domestic market. In KRBL looks to promote healthy foods like brown rice, Weight Watchers special and quinoa through digital advertising, where the target market will be high-income consumers. Also, in FY23, it has introduced new products like regional speciality aged rice in three varieties.

Diversification in renewable energy and captive power: KRBL has been continuously expanding its presence in the value-added products and power business as a diversification measure. With its increasing focus on green manufacturing, KRBL had diversified into renewable energy. Its green energy portfolio stood at 146.84 MW as on March 31, 2023. Of the total power generated, around 23% was used for captive consumption. The diversification into power and renewable energy has not only helped KRBL to become self-sufficient in its captive requirements but has also emerged as a strong revenue earner for the company. The energy segment contributed 1.80% (PY: 2.65%) of the total revenue for FY23, while it contributed to 7% of the total profit-before-tax (PBT) (PY:13%) in FY23. The company has saved its cost in power consumptions since a major portion of generation is utilized in captive consumption and the remaining is sold off to third parties.

Comfortable financial risk profile characterised by strong capital structure and strong debt protection metrics:
The total operating income of the company witnessed a growth of 27% in FY23 and stood at ₹5,363 crore (PY: ₹4,223 crore). This growth was mainly on account of surge in export market which increased by 33% and increase in domestic market by 24%. In FY23, in terms of volume of rice sold, the company reported 6% increase in export rice sales and 2% decrease in domestic sales. Further, the price realization for both domestic and export sales witnessed uptick by 31% and 24% respectively. The operating profitability margins improved to 17.51% in FY23 (PY: 15.97%). In the past, the margins have continued to remain in the range of 20-24%. The profit before interest, lease rentals, taxes and depreciation & amortisation (PBILTD) margin improved in FY23 owing to the lower proportionate other expenses (freight and advertisement).
The TOI grew from ₹1,228 crore in Q1FY23 to ₹1,414 crore in Q1FY24, which is a 15% increase y-o-y. Domestic and export revenue increased 19% & 11% respectively. Also, sales realization for Basmati rice increased by 2% compared to Q1FY23. In Q1FY24, PBIDLT margins have remained stable at 18% (PY: 19%) due to rise in paddy costs which increased by 16%.

KRBL continues to have a comfortable solvency position, marked by an overall gearing (including acceptances) of 0.05x as on March 31, 2023, as against 0.06x as on March 31, 2022. The company has been generating healthy cash accruals during the past, thereby making it less reliant on external debt as seen in previous years. The working capital borrowings were low as on March 31, 2023, primarily on account of sufficient working capital and cash accruals available with the company. The inventory levels were higher comparatively as on March 31, 2023, vis-à-vis as on March 31, 2022 due to higher procurement of paddy and rice by KRBL in FY23 to meet higher expected demand. Furthermore, due to the generation of healthy accruals, the maximum working capital utilisation for the 12 months ended July 31, 2023 stood low, at 8% Most of the debt is in the form of a working capital facility owing to the high inventory-holding period. As an industry phenomenon, the debt increases with the commencement of the procurement of paddy in H2 every year and becomes significantly low by the end of H1 of the next financial year (resulting in negligible debt at the end of H1). The company has also announced buyback of shares worth Rs. 325 crores in August 2023.

Key weaknesses

Working capital-intensive operations: Owing to the seasonality of rice harvest (October to December), the company has to maintain suitable raw material inventory to ensure uninterrupted production throughout the year. Since the majority of paddy pertaining to inventory of basmati rice needs to be aged, the rice needs to be stored for at least one year, since with ageing, the quality of rice improves and will attract a premium pricing. Thus, as per the inherent nature of the business, the working capital requirements of the company remains high. Of the total volume of inventory held by KRBL as on March 31, 2023, around 38.7% (PY: 31%) is paddy inventory and the rest is rice. KRBL's average inventory-holding levels decreased to 306 days in FY23 as against 312 days during FY22. However, in improvement As a result, the operating cycle of the company continued to remain moderately low, at remained at 313 days in FY23. Furthermore, the sizeable inventory levels expose the company to inventory price risk owing to the volatility in the prices of both, basmati paddy and rice, however, cushioned by the brand strength.

Vulnerability of agro-climatic risks and foreign exchange risks: The basmati rice processing industry is an agriculture-based industry and KRBL is exposed to agroclimatic risks such as raw material availability and its quality, which have a bearing on the prices of basmati rice. The cost and availability of basmati paddy is impacted by many factors such as inadequate irrigation facilities, unfavourable climate conditions, changes in crop patterns, and farmers' preferences for other crops that yield better realisation. Furthermore, KRBL earns a significant portion of its revenue from the export market, and as a result, is exposed to foreign exchange fluctuation risk. However, the company has robust foreign exchange risk policies in place and the majority of the forex exposure is hedged through forward contracts.

Vulnerability of international trade to changes in government policies: The paddy prices are regulated by the government to safeguard the interest of farmers, which limits the bargaining power of the rice mills over the farmers. Given the fact that the prices for finished products in the market is determined by the cost of raw materials is fixed by the Government of India (GoI) through the MSP mechanism, the profitability margins of the industry remain vulnerable, especially in times of low paddy cultivation when the GoI decides to prohibit export of rice or increases tariffs on export. KRBL factors any changes in paddy prices in the final pricing done to its customers. The company is exposed to changes in the trade policies of key importing countries, which can impact export revenues, considering KRBL is one of the leading exporters of basmati rice from India.

Intense competition and fragmented nature of the industry: The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganised sector with less product differentiation. There are several small scale operators that are not into end-to-end processing of rice from paddy, but instead, merely complete a small fraction of processing and dispose-off the semi-processed rice to other big rice millers for further processing. Furthermore, the concentration of rice millers around the paddy-growing regions makes the business intensely competitive and limits the pricing flexibility of the industry participants.

Liquidity: Strong

The liquidity position of the company remains strong marked by low debt repayment and low utilization of its working capital limits which stood at 8% for the 12- month period ending July 2023. There is no term debt in KRBL only lease payments are there which are minimal. Furthermore, the current ratio stood at 6.35x as on March 31, 2023, from 7.39x on March 31, 2022, on account of higher inventory as well as lower working capital Utilization. The company has free cash and a bank balance of ₹46.91 crore and a current investment of ₹30.88 crore as on March 31, 2023. It reduced from Rs. 388.33 crores as on March 31, 2022 due to higher procurement of inventory in FY23. Furthermore, the healthy cash accruals of the company enable it to fund its working capital as well as any capex requirements. The capacity expansion programme is underway for KRBL, where new manufacturing facilities are being set up in two states, namely, Karnataka and Madhya Pradesh. The Gujarat plant started commercial operations in June 2023. The total capex before taking the benefit of any government capital subsidies is approximately ₹200 crore. Of this, approximately ₹15 crore was incurred in FY22 and ₹25 crore was incurred in FY23, and the balance is expected to be incurred in the current financial year as well as in the next financial year out of internal accruals. In August 2023, the company also announced buyback of Rs. 325 crores which is to be funded through internal accruals.

Assumptions/Covenants
Not Applicable

Environment and social risks

Environmental: KRBL Limited operates in the food and agriculture sector. Product quality and safety are material risks that the Company addresses regularly. In order to meet product quality and safety requirements, the company has ensured compliance with various certifications standards. The company procures paddy from the APMC Mandis, and any issues related to the quality of the paddy & rice procured can impact the quality of the final product. Thus the company continuously source rice from suppliers based on superior grain quality. The company's operations involves emission of various gases which company addresses through various steps. The Company uses rice-husk as a primary fuel to power its boilers. Hence reducing its dependence on traditional fossil fuel and grid electricity which has a lower energy to emission ratio in comparison to rice-husk. The plants are strategically located near the paddy producing markets thus optimising transportation related emissions. Highly efficient ESP chimneys are installed across manufacturing units and are cleaned properly by trained staff.

Social: Considering rice mills of KRBL limited depends on large number of farmers from whom paddy is sourced, KRBL Limited's R&D cell, in collaboration with the PUSA institute, has introduced improved seed varieties (1886 and 1667) to improve crop resistance to pests and diseases. KRBL Limited provides farmers with Integrated Pest Management (IPM) Kits and training on agricultural techniques to maximise yields and optimise pestiside and fertilizer use. KRBL also undertakes a lot of CSR initiatives for the farmers with whom it is dealing with. As such, social risks of the company remains low.

Governance: Considering the ongoing litigations and investigations, the impact of the same will remain key monitorable.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

KRBL in India's first integrated rice manufacturing company. It is the one of the largest rice producers in the world, with an installed manufacturing capacity of 195 metric tonne per hour. The company was incorporated in 1993 by Anil Mittal, Anoop Gupta, and Arun Gupta. The company produces both, basmati rice and non-basmati rice. It is also engaged in the manufacturing of by-products such as bran oil, furfural, de-oiled cakes, etc. The company predominantly manufactures, and markets branded rice products in India and across the globe. 'India Gate' is the flagship brand of the company and commands a premium in both, the Indian and international markets, contributing around 55% of KRBL's total income. The company also derives 2% of its revenue (₹95.6 crore) through electricity generation facilities from renewable energy sources such as wind turbine (112.25 MW), biomass power plant (17.59 MW), and solar power plant (17 MW). One third of the power generated is used towards captive consumption, whereas the remaining is sold.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	4,222.76	5,363.23	1413.65
PBILDT	675.08	939.18	251.50
PAT	460.04	700.68	194.65

Overall gearing (times)	0.06	0.05	NA
Interest coverage (times)	50.38	63.76	171.09

A: Audited UA: Unaudited; NA: Not Available, Note: 'the above results are latest financial results available'

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: 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
Commercial Paper-Commercial Paper (Carved out)		Proposed	NA	7 – 365 days	500.00	CARE A1+

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 2023-2024	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
1	Commercial Paper-Commercial Paper (Carved out)	ST	500.00	CARE A1+	-	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (21-Sep-21)	1)CARE A1+ (CW with Negative Implications) (02-Feb-21) 2)CARE A1+ (03-Dec-20) 3)CARE A1+ (CW with Negative Implications)

								(07-Sep-20)

*Long term/Short term.

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

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple

Annexure-5: Lender details

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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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