

R.N. Foods

August 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.24 (Enhanced from 9.57)	CARE B; Stable	Revised from CARE D; Stable outlook assigned
Long Term / Short Term Bank Facilities	5.76 (Enhanced from 5.43)	CARE B; Stable / CARE A4	Revised from CARE D / CARE D; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of R.N. Foods (RNF) is in accordance with the CARE Ratings Ltd. (CARE)'s policy on curing period. The revision takes into account the firm's default free debt repayment track record for more than ninety days as a result of improvement in the firm's liquidity position on account of the timely collections from customers. Further, the ratings derive comfort from the experience of the proprietor in the rice milling industry. However, the ratings are constrained by modest scale of operations with low profitability margins, leveraged capital structure marked by high overall gearing and weak debt coverage indicators. The ratings further remain constrained owing to working capital-intensive operations, seasonal nature of availability of paddy and margins susceptible to raw material price fluctuation and government regulations, highly fragmented and competitive nature of industry and constitution of the entity being a proprietorship firm.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations and profitability margins as marked by total operating income (TOI) above Rs.120 crore and PBILDT (profit before interest, lease rentals, depreciation, and taxation) margin above 2% on a sustained basis.
- Improvement in the capital structure as marked by overall gearing below 2.00x on a sustained basis.

Negative factors

- Decline in the TOI by more than 20% from existing level and/or PBILDT margin falling below 1.50% on a sustained basis.
- Elongation in the operating cycle beyond 90 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE's opinion that the firm will continue to benefit from long-standing experience of the proprietor in the rice milling industry.

Detailed description of the key rating drivers

Key weaknesses

Modest scale of operations with low profitability margins

The firm achieved a TOI (total operating income) of Rs.100.33 crore in FY24 (refers to the period from April 01, 2023 to March 31, 2024) (PY: Rs.82.48 crore), largely backed by the healthy demand from the customers in the market. Nevertheless, the scale stood modest, and it limits the financial flexibility of the firm in times of stress and deprives it of scale benefit. Further, the firm's profitability margins remained in line with the previous year as marked by the PBILDT and PAT (profit after tax) margins of 1.75% (PY: 1.63%) and 0.17% (PY: 0.19%) in FY24 respectively. The profitability margins are low largely due to the limited value additive nature of business and highly fragmented and competitive nature of the industry. The commodity nature of the product i.e. rice makes the industry highly fragmented with numerous players operating in the unorganized sector with very less product differentiation. There are small scale operators which are engaged in small fraction of processing only and dispose-off semi-processed rice to other big rice millers for further processing. Further, the concentration of rice millers around the paddy growing regions makes the business intensely competitive.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the firm continue to remain leveraged as marked by overall gearing of 3.53x as on March 31, 2024 (PY: 2.93x), on account of the high reliance on external borrowings, largely to fund working capital requirements coupled with low tangible networth base. Owing to high debt levels and low profitability margins resulting in low gross cash accruals (GCA), the debt coverage indicators of the firm also remained weak in FY24, as marked by interest coverage and total debt to GCA metrics of 1.51x (PY: 1.92x) and 40.94x (PY: 30.44x) respectively.

Working capital-intensive operations

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

Due to the inherent Agro climatic risk, the millers have to stock enough paddy by end of each season as the price and quality of paddy is better during the harvesting season. During this time, the working capital requirements of the rice millers are generally on the higher side. Further, the millers are also required to stock the finished product i.e., rice to meet immediate demand of its customers. The majority funds of the firm are thus blocked in inventory, reflected by high average inventory holding period of 89 days in FY24 (PY: 88 days). Moreover, RNF avails credit period of around two months from its suppliers, resulting in average creditors' period of 51 days in FY24 (PY: 54 days), while it extends credit period of up to 60 days to its customers, resulting in average collection period of 42 days in FY24 (PY: 35 days). Hence, the firm's operating cycle stood moderate at 80 days in FY24 (PY: 69 days).

Seasonal nature of paddy availability with margins susceptible to raw material price fluctuation and regulations by government

Agro-based industry is characterized by its seasonality, owing to its dependence on raw materials whose availability is affected directly by the vagaries of nature. The price of rice moves in tandem with price of key raw material i.e., paddy. The availability and prices of Agro commodities are highly dependent on the climatic conditions. Any adverse climatic conditions can affect their availability and leads to volatility in raw materials prices. The peak paddy procurement season is during November to January, during which the firm builds up the raw material inventory to cater to the milling and processing of rice throughout the year. 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 firm is exposed to the risk of adverse price movement resulting in the lower realization than expected. Moreover, the Government of India (GOI), to safeguard the interest of farmers, every year decides a minimum support price (MSP) of paddy which limits the bargaining power of rice millers over the farmers. The sale of rice in the open market is also regulated by the government through levy quota and fixed prices. Due to the above said regulations along with intense competition, the bargaining power of the rice millers against the suppliers of paddy and the customers is limited.

Constitution of the entity being a proprietorship firm

RNF's constitution being a proprietorship firm has the inherent risk of possibility of withdrawal of proprietor's capital at the time of personal contingency and the firm being dissolved upon death of proprietor. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be a key factor affecting the credit decision of lenders.

Key strengths

Experienced proprietor

RNF is a proprietorship firm established by Mr. Rakesh Garg in the year 2017. He is a graduate having experience of around one and half decades in the rice milling industry with agriculture being the conventional business of the proprietors' family. The long track record in rice milling industry has aided the firm in having established relationship with its customers and suppliers.

Liquidity: Stretched

The firm's liquidity position is stretched as reflected by nearly full utilization of cash credit limit in the trailing 12-months ended July 31, 2024. However, the firm generated GCA (gross cash accruals) of Rs.0.60 crore in FY24 and is expected to generate GCA of around Rs.0.75 crore in FY25 against scheduled term loan repayments of around Rs.0.26 crore in the same year. Further, it has low free cash and bank balances of Rs.0.12 crore as on March 31, 2024. Moreover, the firm is not planning to incur any major capex in the near to medium term.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Policy On Curing Period](#)

[Short Term Instruments](#)

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

Established in the year 2017, RNF is a proprietorship firm based out in Karnal (Haryana). Mr. Rakesh Garg is the proprietor who manages its business affairs. The firm is engaged in the processing, grading and sorting of basmati rice at its rice mill based in Karnal (Haryana). It sells the basmati rice domestically. It procures its key raw material i.e., paddy from traders located in Uttar Pradesh, Bihar, Punjab, Madhya Pradesh, Rajasthan, Haryana, etc. Similarly, in terms of clientele, RNF has diversified customer base comprising of exporters like KRBL (India Gate) (CARE A1+ as per PR dated September 18, 2023), Shiv Shakti Exporters, Sunstar Overseas Ltd., JD International, Supple Tek Industries Private Limited etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	82.48	100.33
PBILDT	1.35	1.76
PAT	0.15	0.17
Overall gearing (times)	2.93	3.53
Interest coverage (times)	1.92	1.51

A: Audited, UA: Unaudited; 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
Fund-based - LT-Cash Credit		-	-	-	13.00	CARE B; Stable
Fund-based - LT-Term Loan		-	-	31-03-2029	1.24	CARE B; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	5.76	CARE B; Stable / CARE A4

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	1.24	CARE B; Stable	1)CARE D (07-May-24)	1)CARE B+; Stable (05-Jul-23)	1)CARE B+; Stable (18-Jul-22)	-
2	Fund-based - LT-Cash Credit	LT	13.00	CARE B; Stable	1)CARE D (07-May-24)	1)CARE B+; Stable (05-Jul-23)	1)CARE B+; Stable (18-Jul-22)	-
3	LT/ST Fund-based/ Non-fund-based- CC/WCDL/OD/LC/BG	LT/ST	5.76	CARE B; Stable / CARE A4	1)CARE D / CARE D (07-May-24)	1)CARE B+; Stable / CARE A4 (05-Jul-23)	1)CARE B+; Stable / CARE A4 (18-Jul-22)	-

LT: Long term; LT/ST: 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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender detailsTo 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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