# KRBL Limited (Revised)

September 17, 2024

| 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

Reaffirmation of the rating assigned to the commercial paper (CP) instrument of KRBL Limited (KRBL) continues to derive strength from the established brand name and market position that KRBL has 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 considers experienced promoters with a long track record of operations in the rice industry, and KRBL's in-house research and development (R&D) capabilities, premium pricing over the industry average, strong financial profile marked by comfortable solvency and the strong liquidity position supported by healthy accruals, significant cushion in working capital limits, and nil long-term obligations. CARE Ratings Limited (CARE Ratings) takes note of the loss of distributor in Saudi Arabia by the company and accordingly export sales are expected to be moderate even in fiscal year 2025. This loss is bridged to a certain extent by rise in domestic sales where KRBL is penetrating more through adding new products in their portfolio. Gaining the lost market share in Saudi Arabia through appointment of new distributor will remain a key monitorable. However, these rating strengths are partially offset by the inherently working capital intensive 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 and basmati paddy and rice price volatility 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. The company also remains vulnerable to the raw material price volatility, vulnerability of trade due to changes in government policies as export accounts for a sizeable part of the revenues, foreign exchange risk, and fragmented nature of the industry. In July 2023, the GoI announced immediate ban on export of non-basmati white rice. However, this does not significantly impact the company's operations, as its non-basmati rice export accounted ~6-7% of total operating income (TOI) prior to FY24.
CARE Ratings also notes the ongoing litigations and investigations. As of date, these events do not have 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 company's credit profile.

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

**Positive factors:** Not applicable

**Negative factors**

- Adverse developments regarding ongoing investigations against the promoters which may have an impact on KRBL's operations or credit profile.
- Significant debt-funded capex resulting in deteriorating capital structure, with total debt to profit before interest, lease rentals, depreciation, and taxation (PBILDT) increasing to more than 1.0x on a sustained basis.
- Adverse changes in the import policies of key importing countries and export policies of GoI affecting basmati rice prices and the company's profitability.

## Analytical approach: Consolidated

CARE Ratings has taken a consolidated approach of KRBL and its subsidiaries, as all these entities are operationally integrated with KRBL are in the same line of business, under a common management, and have strong operational and management linkages. The list of entities consolidated are presented in **Annexure-6.**

## Outlook: Not applicable

## Detailed description of key rating drivers:

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

## Key strengths

**Long track record of operations in basmati rice industry and strong brand presence and widespread distribution network**

Incorporated in 1993, KRBL has grown multi-fold 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 and in international markets and derived 58% of its total revenue in FY24, indicating a strong market presence and acceptability. 'Unity' a low-priced basmati rice brand of the company also contributed 15% of total revenue in FY24. KRBL has a strong presence in international markets (75 countries) and the Middle East countries, such as Saudi Arabia, the UAE, Kuwait, Qatar, Oman, and Bahrain, among others. The Middle East region accounted for nearly 58% of KRBL's total export sales in FY24 (PY: 67%). The company is among the largest branded basmati rice player in these countries. The decline in sales to Middle East region was due to the loss of distributor in Saudi Arabia. However, the company is taking steps to appoint new distributor there. 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 in 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 in the domestic and international markets, with around more than 850 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 3.75 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, and Nature's Basket, among others. The company has also collaborated with Zomato and Swiggy for doorstep delivery of products during the COVID-19-led lockdown, which is still ongoing.

**Comfortable financial risk profile characterised by strong capital structure and strong debt protection metrics**

The company's TOI remained largely stable in FY24. Exports sales declined by ~34% considering loss of distributor in Saudi Arabia, government ban on export of non-basmati rice and geopolitical tensions in the Middle East region. However, the company has achieved growth of ~20% in domestic sales which supported its overall TOI. In FY24, in terms of volume of rice sold, the company reported 57% decrease in export rice sales and 14% increase in domestic volume sales. The cost per unit of paddy (₹/kg) increased by ~13% from ₹39 in FY23 to ₹44 in FY24 against the basmati exports sales realisation remains largely stable in FY24 and domestic sales realisation increased by 6% and 9% for basmati and non-basmati rice, respectively. Proportion of exports sales declined which use to have higher realisations. Accordingly, the company's profitability margins deteriorated to 15.01% in FY24 as compared to 17.51% in FY23. The same are expected to remain at moderated levels even in FY25 as export sales will remain moderated in fiscal year 2025. However, the company is making constant efforts to resolve the issue and appoint a new distributor at Saudi, where gaining the market share should aid in improving its profitability.

In Q1FY25, domestic revenue grew by 9%, driven by increased volume and realisation of both basmati rice and non-basmati rice. Export revenue declined by ~54% y-o-y considering lower bulk exports which is partially offset by higher branded basmati sales. Overall revenue declined by 15% due to lower export sales. Profitability margins also impacted in Q1FY25 and stood at 9.78% as compared to 17.79% in Q1FY24 considering lower exports and higher increase in input cost against realisations.

KRBL continues to have a strong solvency position, marked by an overall gearing (including acceptances) of 0.11x as on March 31, 2024, as against 0.05x as on March 31, 2023. The company has been generating healthy cash accruals in the past, making it less reliant on external debt as seen in previous years. The working capital borrowings increased to ₹460 crore as on March 31, 2024 (PY: ₹138 crore) considering higher inventory as at year end due to lower exports. Due to the generation of healthy accruals, the average working capital utilisation for the 12 months ended June, 2024 stood low, at 19%. 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). Accordingly, the company's working capital borrowing reduced to Nil as of August 2024.

**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. Over the years, it has 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 producing value-added by-products such as 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. It launched new products such as 'India Gate Quinoa', 'India Gate Sprouted Brown Rice', 'India Gate Flax Seed', 'Biryani Masala' and 'India Gate Chia Seed'. In April 2021, 'India Gate rice flour' was introduced in the domestic market. KRBL looks to promote healthy foods such as brown rice, weight watchers special, and quinoa through digital advertising, where the target market will be high-income consumers. Also, in FY24, it has introduced new products such as regional speciality aged rice.

**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, 2024. Of the total power generated, around one-third 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 2% (PY: 2%) of the total revenue for FY24, while it contributed to 8% of the total profit-before-tax (PBT) (PY: 7%) in FY24. The company has saved its cost in power consumptions since a major portion of generation is utilised in captive consumption and the balance is sold off to third parties.

## Liquidity: Strong

The company's liquidity position remains strong marked by low debt repayment and low utilisation of its working capital limits, which stood at 19% for the 12-month period ending June 2024. There is no term debt in KRBL only lease payments are there which are minimal. Furthermore, the current ratio stood at 5.40x as on March 31, 2024, moderated from 6.35x on March 31, 2023, considering higher working capital utilisation as at year end. The company had free cash and liquid investments of ₹30 crore as on March 31, 2024 (PY: 47 crore) and current investments (equity shares & CP) of ₹115 crore as on same date (PY: ₹30.88 crore). The company's healthy cash accruals enable it to fund its working capital and routine capex requirements.

## 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 rice quality improves and will attract a premium pricing. Thus, per the inherent nature of the business, the company's working capital requirements remain high. Of the total value of inventory held by KRBL as on March 31, 2024, around 29.97% (PY: 38.70%) is paddy inventory and the balance is rice. KRBL's average inventory-holding period increased in FY24 to 355 days as compared to 306 days in FY23 considering lower exports sales in the current year which increases the reliance of the company on the working capital borrowings. Accordingly, the company's working capital borrowings increased to ₹460 crore as on March 31, 2024 (PY: ₹138 crore). The sizeable inventory levels expose the company to inventory price risk owing to the price volatility of basmati paddy and rice, though 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 basmati rice prices. 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. KRBL earns a significant portion of its revenue from the export market, and is thus 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 farmers. Given the fact that prices for finished products are market determined and raw materials cost is fixed by the 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 changes in paddy prices in the final pricing done to its customers. The company is also 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 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. The concentration of rice millers around the paddy-growing regions makes the business intensely competitive and limits the pricing flexibility of the industry participants.

## Environment, social, and governance (ESG) risks

**Environmental:** The company has further taken measures towards protecting environment which reduces the environmental risk of the company.

1. The company has recycled plastics in Category 1 (PET Jars), thereby conserving resources and protecting the environment from plastic pollution.
2. Treated 1450 KL/ day of water and is discharged on 30 acres of land area adjacent to Dhuri plant which has a plantation of 20,000 eucalyptus trees.
3. Land is being used for Miyawaki Plantation, which helps in lower temperatures in concrete heat island, reduce air and noise pollution, attract local birds, insects, and create carbon sticks.

**Social:** Considering rice mills of KRBL depend on large number of farmers from whom paddy is sourced, KRBL'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 provides farmers with Integrated Pest Management (IPM) Kits and training on agricultural techniques to maximise yields and optimise pesticides 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 remain low.

**Governance:** The company is managed by professional board of directors who have extensive experience in industry. The Board comprises 11 directors, including two women directors. The independent directors are more than 50% of the total number of directors. However, considering the ongoing litigations and investigations, the impact of the same will remain key monitorable.

## Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

## About the company and industry

### Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Fast-moving consumer goods | Fast-moving consumer goods | Agricultural food & other products | Other agricultural products |

KRBL is India's first integrated rice manufacturing company. It is one of the largest rice producers in the world, with an installed manufacturing capacity of 195 metric tonne per hour and grading & packing capacity of 221 metric tonne per hour. The company was incorporated in 1993 by Anil Mittal, Anoop Gupta, and Arun Gupta, and produces basmati rice and non-basmati rice. It is also engaged in manufacturing by-products such as bran oil, furfural, and de-oiled cakes, among others. 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 the Indian and international markets, contributing around 58% of KRBL's total income in FY24. The company also derives 2% of its revenue (₹103 crore) through electricity generation facilities from renewable energy sources such as wind turbine (114.35 MW), biomass power plant (17.59 MW), and solar power plant (15 MW). One third of the power generated is used towards captive consumption, whereas the balance is sold.

| Brief Financials (₹ crore) | FY23 (A) | FY24 (A) | Q1FY25 (UA) |
|---|---|---|---|
| Total operating income | 5,362.46 | 5,391.57 | 1199.18 |
| PBILDT | 938.49 | 809.20 | 117.23 |
| PAT | 700.99 | 595.86 | 86.56 |
| Overall gearing (times) | 0.05 | 0.11 | NA |
| Interest coverage (times) | 63.67 | 33.58 | 24.63 |

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Commercial paper-Commercial paper (Carved out) | | Proposed | NA | NA | 500.00 | CARE A1+ |

## Annexure-2: Rating history for 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 | Commercial paper-Commercial paper (Carved out) | ST | 500.00 | CARE A1+ | - | 1)CARE A1+ (18-Sep-23) | 1)CARE A1+ (20-Sep-22) | 1)CARE A1+ (21-Sep-21) |

ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of instruments rated

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

## Annexure-5: Lender details

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

## Annexure-6: List of entities consolidated

| Sr No | Name of the entity | Extent of consolidation | Rationale for consolidation |
|---|---|---|---|
| 1 | KRBL DMCC Group | Full | Subsidiary |
| 2 | KB Exports Private Limited | Full | Subsidiary |

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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