K G Industries

September 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.30	CARE B+; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BB-; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	7.70	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING*	LT rating downgraded from CARE BB-; Stable and ST rating reaffirmed and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. (CARE Ratings) has been seeking information from K G Industries to monitor the rating(s) vide e-mail communications dated July 05, 2024; August 05, 2024; August 29, 2024; September 25, 2024, among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on AJM Developers LLP's bank facilities will now be denoted as CARE B+; Stable/ CARE A4; ISSUER NOT COOPERATING*. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of the non-availability of requisite information due to non-cooperation by K G Industries with CARE Ratings Ltd.'s efforts to undertake a review of the ratings outstanding. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk. Further, the ratings are constrained on account of small scale of operations, low profitability margins, leveraged capital structure and weak debt coverage indicators, competitive and fragmented nature of industry, susceptibility to fluctuation in raw material prices and monsoon dependent operations and constitution of the entity being a partnership firm. The rating, however, draws comfort from experienced partners.

Analytical approach: Standalone

Outlook: Stable

Detailed description of key rating drivers:

At the time of last rating on September 28, 2023, the following were the rating strengths and weaknesses

Key Weakness

Small scale of operations
The firms scale of operations improved though stood small as evident from total operating income (TOI) and gross cash accruals (GCA) of ₹95.22 crore and ₹0.71 crore respectively in FY23 as against ₹73.05 crore and ₹0.73 crore respectively in FY22 on account of higher intake from existing client. Nevertheless, the scale remains small, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Though, the risk is partially mitigated by the fact that the scale of operation is growing continuously. For the period FY21-FY23, the firm's total operating income grew from ₹70.84 crore to ₹95.22 crore reflecting a compounded annual growth rate (CAGR) of 10.36% on the back of addition of new clients. Further, the firm has registered a TOI of ₹17crore in 5MFY24 and is expected to register a TOI of ₹150 crores in FY24.

Low profitability margins
The profitability margin of the firm is low owing to its presence in a highly competitive and fragmented nature of industry. The PBILDT margin of the firm declined to 5.31 % in FY23 as against 6.09 % in FY22 on account of increase in cost of raw material which the firm is unable to pass on completely to its customers. The PAT margin also declined to 0.23% in FY23 due to decline in PBILDT margins. The PBILDT margin of the firm is expected to remain in the range of 5-6% over the medium term due to low value addition.

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

Leverage capital structure and weak debt coverage indicators

As on March 31,2023 the debt profile of the firm comprises of term debt of ₹7.13 crores, the working capital limits utilized at ₹28.69 crores and unsecured loan to the tune of ₹12.20 crores against relatively small tangible net worth base of ₹6.51 crores. The capital structure stood leveraged as marked by overall gearing ratio of 7.38x in FY23 owing to high dependence on external borrowings to meet the working capital requirement. The overall gearing is expected to remain around 6.00x over the medium term

Competitive and fragmented nature of industry

The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. The key raw material (i.e., paddy) prices are moderately regulated by government to safeguard the interest of farmers, which in turn limits the bargaining power of the rice millers. There are small scale operators which are not engaged into end-to-end processing of rice from paddy, instead they merely complete a small fraction of processing 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.

Susceptibility to fluctuation in raw material prices and monsoon dependent operations

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 line with the prices of 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 the raw materials prices. The paddy is the major raw material, and the peak paddy procurement season is during November to January, during which the firm builds up 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 lower realization than expected.

Constitution of the entity being a partnership firm

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

Key strengths

Experienced partners

The firm was established as a partnership firm in 2000 by three partners Sohrub Jindal, Sumit Jindal and Sheena Rani . All the partners are graduate by qualification and manage the day-to-day operations of the firm. The partners have an experience of around two decades in rice milling industry through their association with this firm.

Liquidity: Stretched

The liquidity remained stretched as marked by high utilisation of working capital limit ~90% for the past twelve months period ended August 2022. Further, the firm has tightly matched repayment obligations vis-à-vis cash accruals. The firm is expected to generate Net Cash Accruals (NCA) of ₹1.10 crore against repayment obligations of ~ ₹1.08 crore in FY24.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Policy in respect of non-cooperation by issuers
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

KG industries is a partnership firm incorporated in 2000 by three partners Sohrab Jindal, Sumit Jindal and Sheena rani. The partners have profit sharing of around 50%, 25% and 25% respectively. All the partners look after the day-to-day affairs of the business. The firm is based at Fazilka, Punjab. The firm is involved in milling and sorting of basmati rice. The firm procure paddy from farmers and traders around Punjab. The firm has an installed milling and sorting capacity of 84000 MT per year. The firm utilise around 60% of the installed capacity. The firm sells the rice to export players in India. The firm also sell its products in domestic market under the brand name "K G Gold".

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)	5MFY24
Total operating income	73.05	95.22	**17**
PBILDT	4.45	5.14	**NA**
PAT	0.20	0.22	**NA**
Overall gearing (times)	7.51	7.38	**NA**
Interest coverage (times)	1.19	1.09	**NA**

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork and CRISIL have placed the rating assigned to the bank facilities of K G Industries into Issuer Not Cooperating category vide their press release dated October 19, 2023, and April 08, 2024, respectively on account of their inability to carry out a review in the absence of requisite information.

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	29.00	CARE B+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	March 2027	3.30	CARE B+; Stable; ISSUER NOT COOPERATING*
Fund-based/Non-fund-based-LT/ST		-	-	-	7.70	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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	Fund-based - LT-Cash Credit	LT	29.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (28-Sep-23)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST	7.70	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable / CARE A4 (28-Sep-23)	-	-
3	Fund-based - LT-Term Loan	LT	3.30	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (28-Sep-23)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

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.

Contact us

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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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