KRBL Limited

September 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper*	500.00	**CARE A1+; Under Credit Watch with Negative Implications (A One Plus; Under credit watch with negative implications)**	Continues on credit watch with negative implications
Total	**500.00 (Rupees Five hundred crore only)**		

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

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial paper issue of KRBL Limited (KRBL) continues to derive strength from the experienced promoters with long track record of operations in the rice industry, established brand name backed by robust selling & distribution network, integrated operations and diversification in renewable energy segment as an alternate source of revenue. The rating also take into consideration KRBL's in-house research & development capabilities, strong market share in Middle East countries with premium pricing over the industry average and comfortable financial profile marked by healthy profitability and comfortable solvency & liquidity position.

These rating strengths are however partially offset, by its working capital intensive operations, volatility in raw material prices, vulnerability of trade due to changes in government policies, foreign exchange risk and fragmented nature of the industry.

The rating continues to remain under credit watch with negative implications on account of the attachment of the portion of land and rice mill factory, belonging to the company by the Enforcement Directorate (ED) under Prevention of Money Laundering Act, 2002 (PMLA) in connection with the 'Embraer Deal' case. CARE notes that the company vide its order dated June 11, 2020 has been allowed the usage of aforesaid land parcels and building thereupon for specific purpose in favor of the Company for specified period of 4 months from the date of the order. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities

Negative Factors

- Any further adverse developments in relation to the ongoing legal cases.
- Significant debt-funded capex resulting in deterioration of capital structure with overall gearing increasing more than 1.0x on a sustained basis.
- Adverse changes in import policies of key importing countries affecting the prices of Basmati rice and profitability of the company.

Detailed Description of the Key Rating Driver

Key Rating Strengths

Experienced promoter with long track record of operations in the rice industry

KRBL Limited (KRBL) was incorporated in 1993 by Mr. Anil K. Mittal (Chairman & MD) and his brothers Mr. Anoop K. Gupta (JMD) and Mr. Arun K. Gupta (JMD). Though, the company was incorporated in its present form in 1993, the family has been in the rice business for more than 130 years. The promoters are assisted by an experienced team of professionals for carrying out the day-to-day operations of the company.

Established brand name backed by robust selling & distribution network

KRBL is an established player of basmati and non-basmati rice in the overseas markets. The company sells rice under its flagship brand, 'India Gate' along with the other brands like Taj Mahal, Doon, Nur Jahan, Bemisal and Unity among others. It has created a strong brand presence through collaborations with global retail chains. In FY20, exports constituted around 46% of KRBL's total operating income. India Gate brand (domestic & export) contributed around 47% (PY: ~50%) of total revenue during FY20 thus indicating its strong market presence and acceptability.

KRBL over time has built up a strong distributor network both in the domestic and international markets. KRBL has around 500 dealer-distributors all over India and has strong distributor network in the overseas markets and also has strong tie-ups with several domestic retail chains.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Presence across 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 company. Over the years, the company has made its presence across the value chain of rice business thereby generating higher profitability. KRBL has its presence right from the seed development and distribution, farming stage (through contract farming) and milling of the paddy and selling of finished rice. It is engaged in production of value-added by-products like brain oil, de-oiled cakes and uses rice husks for captive power plant and production of furfural. KRBL also has a large base of contact farmers in the country with around 90,000 farmers cultivating about 300,000 acres. Integrated operations and presence across the entire value chain facilitates in controlling costs and quality. Further, KRBL is also diversifying its product portfolio by including health foods in their product portfolio.

Diversification in Renewable energy/ Captive power

KRBL has been continuously expanding its presence in value added products and Power business as a diversification measure. With its increasing focus on green manufacturing, KRBL had diversified into renewable energy and has been increasing its capacity. Its green energy portfolio stood at 144.84 MW as on March 31, 2020. Out of the total power generated 40% 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 segmented contributed 3% of total revenue for FY20, while it contributed to 10% of total PBT in FY20.

In-house R&D facilities

KRBL has an established in-house R&D facility to ensure best quality basmati rice and continuous development of newer verities. KRBL has established a network of farmers to produce best quality seeds and has a seed grading plant. It sources 'breeder' seeds from various leading Indian Agriculture Research Institutes (PUSA), which are then grown as 'foundation' seeds under the supervision of scientists and the government seed certification agency, before being distributed to farmers. The collaboration also facilitates continuous improvement in quality cropping methodologies, seed varieties and harvesting techniques of the farmer partners.

Strong market share in Middle East countries and premium export pricing

KRBL has a strong market presence in international markets (82 countries) and in particular the Middle East countries. It has a strong presence in Middle East countries such as Saudi Arabia, UAE, Kuwait, Qatar, Oman and Bahrain among others. The Middle East region accounted for nearly 70% of the KRBL's total exports sales during FY20.

The total export sales stood at Rs. 2081 crore (248,232 MT) during FY20 as against Rs. 1,842 crore (218,320 MT) during FY19. The export revenue of the company increased by 13% during FY20 driven by overall increase in the global demand.

Comfortable financial risk profile

The total operating income of the company witnessed a significant growth of 9.40% in FY20 to reach Rs. 4,514.51 crore against Rs. 4,126.59 crore in FY19. The revenue from exports and domestic increased by 13% and 6% respectively in FY20 vis-à-vis FY19. In terms of volume of rice sold, the company reported 5% increase in domestic rice sale and 14% increase in export rice sales. Further, in FY20 the price realization for both domestic and export sale almost remained at par with FY19. The profitability margins continued to remain in the range of 20% in FY20 while the PAT margin increased to 12.39%.

KRBL has a comfortable solvency position marked by overall gearing (including acceptances) of 0.28x as on March 31, 2020 (PY: 0.57x). The company has been generating healthy cash accruals during the past thereby making it less reliant on external debt as seen in FY20. The working capital borrowings were low as on March 31, 2020 primarily on account sufficient working capital and cash accruals available with the company along with lower inventor cost (paddy prices were lower by ~20% in FY20).

Majority of the debt is in form of working capital facility owing to the high inventory holding period. As the industry phenomena, the debt increases with the commencement of procurement of paddy in H2 every year and becomes significantly low by the end of H1 of the next financial year (resulting in near zero debt at the end of H1).

Other solvency and coverage indicators of the company also improved during FY20 such as Total Debt to GCA of 1.38x and interest coverage ratio of 14.22x.

Q1FY21 Performance: The Total operating income decreased from Rs.1219.84 crore in Q1FY20 to Rs.773.19 crore in Q1FY21; registering a decline of 36.62% on y-o-y basis. The reason for variation in the performance was primarily due to the supply chain disruption amid the outbreak of Covid-19 and lockdown restrictions resulting in closure of borders of various states. Further the contribution from the HoReCa segment has significantly declined while the online segment, has witnessed growth however the contribution of the segment to the TOI is very low The PBILDT margins however have improved from 19.66% in Q1FY20 to 24.92% in Q1FY21.

The total debt outstanding as on June 30, 2020 was Rs. 287.08 crore which included term loan of Rs. 29.64 crore while the balance was working capital borrowings.

Strong Liquidity

The liquidity position of the company remains strong marked by low debt repayment and low utilization of its working capital limits. The total debt repayment for FY21 is Rs. 13.44 crore. The maximum working capital utilization for the 12 months ending June 2020 stood comfortable at 30.70%. Further the current ratio stood at 2.98x as on March 31, 2020 (PY: 2.07x). The company has free cash and bank balance of Rs. 30.50 crore and liquid investment of Rs. 40 crore as on June 30, 2020 (free cash & bank balance of Rs. 13.45 crore as on March 31, 2020 and current investments (equity shares) of Rs. 5.84 crore).

The company has not availed any moratorium for its debt obligations. Further, the healthy cash accruals of the company enable it to fund its working capital as well as any capex requirement. Going forward, with low debt repayment due within next one year, the cash accruals are only expected to strengthen the liquidity further.

Industry Outlook

Currently, domestic basmati rice market is estimated at ~Rs. 13000 crore. The share of basmati as a percentage of total rice consumption in India is extremely low at ~2% as compared to the Middle East (38%). However, the rise in disposable income and premiumization coupled with increasing penetration of basmati is expected to drive the consumption of basmati in India.

India witnessed 9% decline in exports growth in FY20 to reach USD 4331 Mn. Further, Middle East or Gulf Cooperation Council (GCC) is one of the largest basmati markets in the world. Out of the total exports from India in FY20, 28% was to Iran, 22% to Saudi Arab, 10% to Iraq, and 5% to UAE. (Source: Agricultural and Processed Food Products Export Development Authority (APEDA)). APEDA reported India’s total exports of basmati rice at 3.8 million tonnes valued $3.8 billion for the financial year 2019-20 (upto February 2020) versus 4.4 million tonnes worth $4.7 billion reported for the previous full financial year (i.e. 2018-19).

Covid-19 Impact: Basmati rice has become costlier by 10%in June 2020 due to sudden spurt in demand from both domestic households and overseas markets post nationwide lockdown in India and in other major countries to control pandemic. Supply to domestic consumers and exports were initially interrupted due to transport disruptions during the nationwide lockdown. However, the prices of basmati have gone up by $100 in June 2020 from sudden emergence in demand from domestic as well as international markets.

In November 2018, the US government-imposed trade sanctions on Iran. However, it granted waivers to eight countries including India, allowing these to continue to import crude oil from Iran. With effect from May 2, 2019, the US government has withdrawn this waiver, leading to uncertainty over India’s crude oil imports from the nation. The country has been a major export destination for Indian Basmati rice and the industry’s concentration on the same has only increased y-o-y. However, there were no sanctions on essentials –food or medical items and all exports made to Iran are LC backed through UCO bank Rupee-Payment mechanism.

India and Iran had signed an agreement during the end of the last year for oil import payments in rupee. The MoU was signed following the US letting India and seven other nations to keep buying Iranian oil despite reimposed sanctions in November 2018. According to the pact, Indian oil companies made rupee payments in UCO Bank accounts, and 50% of those funds were earmarked for making payments for exports from India to Iran. UCO Bank has been facilitating bilateral banking trade transactions with Iran under the ‘Rupee Payment Mechanism’ since February 2012 as mandated by the government and the RBI. However, the inflow of funds in the account is now freezed and now only outflow for the exports are being made to Iran and once this reserve exhausts there could be payment-related challenges and uncertainty over exports.

KRBL enters into contracts only with the Government of Iran and the entire export is LC backed. KRBL ensures that there is no risk of payment on account of such deals. However, any moderation in exports to this market can have a depressing impact on the Basmati rice prices globally. This can impact the profitability of industry participants, especially considering the firming up of prices of the Basmati paddy in the recent times, resulting in industry participants carrying high cost inventory. This would remain the key monitorable factor.

Key Rating Weakness

Ongoing legal cases

Enforcement Directorate (ED) in July 2019 had attached land parcels of KRBL worth Rs. 15.32 crore under Prevention of Money Laundering Act, 2002 (PMLA) in connection with 2008 Embraer deal case. The Company had filed an appeal with Appellate Tribunal, PMLA (Government of India), New Delhi, ('Appellate Tribunal'') and vide its order dated January 17, 2020, the Appellate Tribunal ordered to restore the possession of land in favour of the Company, however, against the order of Appellate Tribunal, the ED has filed an appeal before Hon'ble High Court of Delhi. As per the recent update, during the quarter ended 30 June 2020, the company had filed an application with Hon’ble High Court of Delhi’s for execution of the Appellate Tribunal order and Hon’ble High Court of Delhi vide its order dated 11 June 2020, has allowed

the usage of aforesaid land parcels and building thereupon for specific purpose in favor of the Company for specified period of 4 months from the date of the order.
Further, KRBL received an income tax demand of Rs.1,269.20 cr (including interest liability of Rs.511.76 cr) in February 2019. The same was primarily on account of disallowance for cash purchases of paddy from farmers amounting to Rs.1,995.54 cr, pertaining to assessment years 2010-11 to 2016-17. Although, as per the appeal order received by the company dated March 11, 2020, KRBL has been granted relief of Rs. 2039.70 crores as against total addition of Rs.2220.79 crores. As a result, the Income Tax demand got reduced to only Rs.101.46 Crores (including interest of Rs.38.93 crores) as against earlier demand of Rs. 1269.20 crores (including interest of Rs. 511.76 crores). As against this, company has already deposited ~Rs. 219 crores as on March 31, 2020 and is expected to get refunds for the excess amount paid.

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. Further, the inventory requirements are further accentuated by the need to 'age' the rice by storing it for a period of time, as the ageing improves the quality of rice and attract premium pricing. Thus the working capital requirement of the business remains high. Out of the total volume of inventory held by KRBL as on March 31, 2020 ~43% is paddy inventory and rest is rice. KRBL's average inventory holding levels has remained above 300 days during FY20. As a result, the operating cycle of the company remains high (307 days for FY20). Further, the sizeable inventory level exposes 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.

Volatility in raw material price
The basmati rice processing industry is an agro-based industry and its main raw material is basmati paddy. Rice is mainly a 'kharif' crop and is cultivated from June-July to September-October and the peak arrival time of crop at major trading centers begins in October. The cost and availability of basmati paddy is impacted by many factors like inadequate irrigational facilities, unfavorable climatic conditions, natural calamities, prevalence of pests, change in crop patterns and farmer's preference for other crops that yield better realization. As the paddy prices have firmed up considerably over the past two procurement seasons, there is increase in the cost of inventory. This accentuates the price risk considering the anticipated demand volatility in the export market, and its resultant impact on the domestic prices as well. However, the risk is mitigated to an extent because of the pricing premium enjoyed by its well-established brands.

Vulnerability of international trade to changes in government policies
The raw material (paddy – non basmati) 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 GoI through the MSP mechanism, the profitability margins remain vulnerable, especially in times of high paddy cultivation. However KRBL primarily deals in Basmati rice and as such is there is no significant impact of the same on the company, the basmati paddy prices are market driven.
Also, the company remains susceptible to changes in import policies of various countries. For example, various markets such as European Union and Saudi Arabia have implemented strict limits as Maximum residue level (MRL) on the usage of certain fungicide (Tricyclazole) by farmers. Though these norms are not India specific, it might have an adverse impact on the exports for domestic players.
Also the recent removal of the waiver of trade sanctions on Iran by the US government can impact the export of basmati rice to the former. As Iran is a leading importer of basmati rice from India, this can depress basmati rice prices, exerting pressure on the profitability of industry participants. However, given that KRBL has a customer base spread across various countries, the risk arising from changes in regulations is diversified to a great extent.

Foreign exchange risk
KRBL earned around 46% of its income through exports sales during FY20 and therefore is exposed to foreign exchange fluctuation risk. However, the company has robust foreign exchange risk policies in place and majority of the forex exposure is hedged through forward contracts. The company reported foreign exchange gain of Rs. 8.40 crore in FY20.

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. There are several small scale operators which are not 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. 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. However, KRBL benefits to an extent on account of its strong brand presence.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios - Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology-Manufacturing Companies]

About the Company
KRBL Limited (KRBL) was incorporated in 1993 by Mr. Anil K. Mittal, Mr. Anoop K. Gupta and Mr. Arun K. Gupta. The promoters have been involved into this business since 1889 under the name of Khushi Ram & Behari Lal.
KRBL is one of the largest fully integrated domestic rice players with an installed manufacturing capacity of 195 Metric Tonnes per hour (TPH). The company is engaged in the production and marketing of Basmati rice and is also engaged in seed development and multiplication and contact farming. Being an integrated player, it also generates value-added by-products like brain oil, de-oiled cakes and uses rice husks for captive power plant. The company also derives around 3% of its revenue through electricity generation. It has 144.84 MW of renewable power generation capacity through wind turbine (114.35 MW), biomass power plant (17.59 MW) & solar power plant (15 MW). One-third of the power generated is used towards captive consumption whereas the remaining is sold. However, KRBL is now evaluating to demerge this segment into a new company.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4126.59	4514.51
PBILDT	857.30	887.64
PAT	503.27	559.41
Overall gearing (times)	0.57	0.28
Interest coverage (times)	12.69	14.22

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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
Commercial Paper	-	-	-	500.00	CARE A1+ (Under Credit watch with Negative Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper	ST	500.00	CARE A1+ (Under Credit watch with Negative Implications)	-	1)CARE A1+ (Under Credit watch with Negative Implications) (22-Nov-19) 2)CARE A1+ (Under Credit watch with Negative Implications) (06-Sep-19) 3)CARE A1+ (Under Credit watch with Negative Implications) (15-Jul-19)	1)CARE A1+ (27-Sep-18)	1)CARE A1+ (26-Dec-17) 2)CARE A1+ (05-Dec-17) 3)CARE A1+ (27-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple

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

Contact us

Media Contact
Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact 1
Name: Gaurav Dixit
Contact no: +91-11 - 4533 3235
Email ID: gaurav.dixit@careratings.com

Analyst Contact 2
Name: Ravleen Sethi
Contact no: +91-11 - 4533 3251
Email ID: ravleen.sethi@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**