

Kohinoor Foods Limited

February 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	199.50 (reduced from 209.67)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	747.30 (enhanced from 655.25)	CARE A3 [A Three]	Reaffirmed
Total Facilities	946.80 (Rs. Nine hundred forty six crore and eighty lakhonly)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kohinoor Foods Ltd (KFL) continue to take into account experienced and resourceful promoters, strong brand image of 'Kohinoor' in international markets, established and geographically diversified distribution network, joint venture with Al Dahra International Investments LLC, UAE (ADII) and strong net worth base resulting in moderate capital structure. The rating further factors in increase in volumes and operating profitability of KFL during FY16 and reduction in losses of its US subsidiary upon restructuring of business operations and improvement in the profitability of its UK subsidiary operations. The ratings continue to remain constrained by moderation in financial risk profile of the company reflected by the decline in sales during FY16 (refers to period from April 1 to March 31) due to continuance of low basmati prices, working capital intensive nature of operations as marked by elongated operating cycle which is largely debt funded. Furthermore considerable contingent liabilities and inherent risks associated with the rice industry like the fragmented nature, fluctuations in the raw material prices and high degree of government control have been factored in the rating.

The ability of the company to profitably improve its scale of operations, maintain its capital structure, efficient management of its working capital requirements along with reduction in contingent liabilities are the key rating sensitivities. CARE further notes that upon termination of Rice Supply Agreement (RSA) by Kohinoor Specialty Foods Limited (KSFL), KFL is supplying rice in domestic market in private labels. The matter is now in arbitration and any impact of the same on the financials of KFL will be key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group: KFL was founded by Mr. Jugal Kishore Arora (Chairman) along with his brothers Mr. Satnam Arora (Jt. Managing Director) and Mr. Gurnam Arora (Jt. Managing Director). The promoters have an experience of 4 decades in the industry. The promoters had brought in unsecured loans of Rs. 65.81 crore during the FY16 to meet the working capital requirements.

Established and geographically diversified distribution network: KFL has a strong marketing and distribution setup with more than 100 distributors in 60 countries across the globe each of whom has his own network of dealers and retailers.

Established brand name in the overseas markets: KFL is an established player of basmati and non-basmati rice in the overseas markets. The company sells rice under its flagship brand, 'Kohinoor' along with the other brands like Trophy,

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

Falcon and Charminar. In FY16 (refers to period from April 1 to March 31), exports constituted over two third of total operating income.

Joint venture with AL Dahra International Investments (ADII): KFL has set up a brown-to-white rice facility in Abu Dhabi to jointly manage with ADII with a capacity of 60,000 MTs per annum. KFL realized income of Rs. 199.21 crore (~37818MT) from ADK in second year of its operation (FY16).

Key Rating Weaknesses

Working capital intensive operations: Owing to the seasonality of rice harvest, the business has to maintain suitable raw material inventory to ensure uninterrupted production throughout the year. Further, basmati rice requires higher ageing of the semi-finished rice for better quality thereby elongating the working capital cycle. High working capital intensity results in the high utilization of working capital limits for the company leading to weak debt coverage indicators.

Significant exposure to wholly-owned subsidiaries and joint ventures: KFL's total exposure to its group companies by way of investments, loans and advances and trade receivables was Rs.194.05 cr as on March 31, 2016 (equivalent to 46.87% of its net worth as on March 31, 2016 as against 57.61% of net worth as on March 31, 2015). Further, the company had investment holding of 15% in KSFL (equivalent to Rs. 42.21 crore as on March 31, 2016). KSFL has terminated the Rice Supply Agreement (RSA) with KFL. Pursuant to termination, KFL is supplying rice in the domestic market in private labels. The matter is now in arbitration and any impact of the same on the financials of KFL will be key rating sensitivity.

Significant contingent liabilities: KFL has considerable contingent liabilities as on March 31, 2016, on account of the income tax assessment orders of earlier years, bank guarantees etc. which may significantly impact the financial risk profile of the company if the outcome of the event is detrimental to the interests of the company. Total contingent liabilities outstanding as on March 31, 2016 aggregated to Rs.350.51 crore (Rs.397.86 crore as on March 31, 2015).

Vulnerability of international trade to changes in government policies and fragmented nature of industry: The raw material (paddy) prices are regulated by the government to safeguard the interest of farmers which limits the bargaining power of rice mills over the farmers. Also, the commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. KFL has emerged as one of the dominant Indian players in the basmati rice industry.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1989, Kohinoor Foods Ltd (KFL) is engaged in the milling, processing and selling of rice, and trading of food products and other agri-commodities. The rice mill is located at Murthal (Haryana) with total installed capacity of 60 metric tonne per hour (MTPH) as on March 31, 2016. Over the years, KFL has emerged as one of the dominant Indian players with its brand 'Kohinoor' being marketed across the global basmati rice market. KFL has established its presence in geographies like the USA, the UK, the Middle East, Australia, Belgium and other European countries.

In FY16 (refers to the period April 1 to March 31), the company achieved a total operating income of Rs.1,132.23 crore with a PAT of Rs.3.81 crore as against a total operating income of Rs.1,164.26 crore with a negative PAT of Rs.72.55 crore in FY15. For H1FY17 (Provisional results; refers to the period April 01 to September 30), the company has reported total operating income of Rs. 554.69 crore with net losses of Rs.8.97 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Fund-based - LT-Cash Credit	-	-	-	199.50	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	507.25	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	148.00	CARE A3
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	92.05	CARE A3

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	199.50	CARE BBB-; Stable	-	1)CARE BBB-(02-Feb-16) 2)CARE BBB (21-Apr-15)	-	1)CARE BBB-(04-Feb-14) 2)CARE BB+(03-Sep-13)
2.	Fund-based - ST-EPC/PSC	ST	507.25	CARE A3	-	1)CARE A3 (02-Feb-16) 2)CARE A3 (21-Apr-15)	-	1)CARE A3 (04-Feb-14) 2)CARE A4 (03-Sep-13)
3.	Non-fund-based - ST-BG/LC	ST	148.00	CARE A3	-	1)CARE A3 (02-Feb-16) 2)CARE A3 (21-Apr-15)	-	1)CARE A3 (04-Feb-14) 2)CARE A4 (03-Sep-13)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB-(02-Feb-16) 2)CARE BBB (21-Apr-15)	-	1)CARE BBB-(04-Feb-14) 2)CARE BB+(03-Sep-13)
5.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	92.05	CARE A3	-	-	-	-

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