Krish Cereals Private Limited

February 11, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	23.00	**CARE BB; Stable [Double B; Outlook: Stable]**	Revised from CARE BB+; Stable (Double B Plus;Outlook: Stable)
Total Facilities	**23.00 (Rs. Twenty Three crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

At the time of the last rating, the financial and business risk profiles of Krish Cereals Private Limited (KCPL), S. K. Foods (SKF; CARE BB; Stable), R.L. Agro Foods Private Limited (RLAF; CARE B; Stable; Issuer Not cooperating) and Anand Rice Mills (ARM; CARE B; Stable; Issuer Not Cooperating) were combined as the four companies/firms operated in the same line of business, had common promoters and a common management team. However, now, owing to a planned partition of businesses within the family, there will be a change in both the management as well as the shareholding structure of KCPL, SKF, RLAF and ARM in the near future. Owing to uncertainty in the same, a standalone approach has been adopted for KCPL.

The rating assigned to the bank facilities of KCPL are constrained by low profitability margins and weak overall solvency position. The rating is further constrained by susceptibility of profitability margins to fluctuations in raw material prices, monsoon dependent operations and presence of the company in fragmented industry coupled with high level of government regulation.

The rating, however, derives strength from increasing scale of operations, experienced and resourceful promoters along with long track record of operations in the rice industry, favorable manufacturing location along with established business relationship with customers and suppliers.

Rating Sensitivities

Positive Factors

- Substantial improvement in the operating income of the company and sustained improvement in PBILDT margins to ~4-5% in the projected period.
- Improvement in capital structure with overall gearing ratio remaining below 2x on a sustained basis.

Negative Factors

- PBILDT margins falling below ~2% on a sustained basis
- Any major debt funded capex or increased working capital reliance resulting in major deterioration of capital structure from the level, as on March 31, 2019.

Detailed description of the key rating drivers

Key Rating Weaknesses

Low profitability margins: The PBILDT margins of the company remained low and declined on a year-on-year basis (y-o-y) from 2.37% in FY17 (refers to the period from April 01 to March 31) to 2.01% in FY19 (PY: 2.29%) on account of increase in paddy prices and increased proportion of sales from the processing of semi-processed rice, which is a relatively low margin giving segment. Further, the PAT margins of the company also declined from 0.30% in FY17 to 0.11% in FY19 (PY: 0.30%).

Weak overall solvency position: The debt equity ratio and overall gearing ratio remained leveraged at 3.53x and 8.58x as on March 31, 2017, however, the same improved to 1.58x and 3.16x, respectively as on March 31, 2019 on account of repayment of external term debt obligation and unsecured loans from promoters and related parties, lower utilization of working capital borrowing during the period and accretion of profits to networth. The total debt to GCA ratio of the company stood weak at 48.69x, as on March 31, 2017. However, the same improved marginally on a y-o-y basis to 47.81x as on March 31, 2019 on account of lower total debt outstanding. The interest coverage ratio of the company stood at 1.26x in FY19 which deteriorated from 1.53x in FY18 on account of decline in PBILDT in absolute value terms.

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 tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions. 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 company is exposed to the risk of adverse price movement resulting in lower realization than expected.

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

Fragmented nature of industry coupled with high level of government regulation: The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive. Furthermore, 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. Given the fact that prices for finished products is market determined while the cost of raw material is fixed by Government of India through the MSP (Minimum Support Price) mechanism, the profitability margins remain vulnerable, especially in times of high paddy cultivation.

Key Rating Strengths

Increasing scale of operations: The scale of operations of the company increased at a CAGR (compound annual growth rate) of ~5% in FY17-FY19 period with total operating income increasing from Rs. 253.25 cr. in FY17 to Rs. 281.18 cr. in FY19 due to higher demand from the customers. In H1FY20 (Prov.), the total operating income achieved by the company stood at Rs. 104.50 cr. which increased by ~5% from the corresponding period of last year on account of increase due to higher demand from its customers.

Experienced promoters with long track record of operations in the rice industry: The operations of the company are currently being managed by Mr. Kamal Singla and Mr. Dinesh Kumar. Both are having an experience of half a decade in the rice industry through their association with the company. There is also an experienced team of professionals for carrying out the day-to-day operations of the company. The promoters & related parties of the company have also infused unsecured loans to fund various business requirements of the company. The same stood at Rs.25.28 crore (PY: Rs. 27.33 crore). There was also an addition in the equity share capital of KCPL amounting to Rs. 1.60 cr. in FY18.

Favorable manufacturing location along with established business relationship with customers and suppliers: The company's manufacturing units are located in Nissing (Karnal, Haryana). This area is a hub for paddy/rice, leading to its easy availability. The company was established in 2010, with the promoters having an experience of a decade in the rice industry through their association with the company. Further, favorable location of the plant in close proximity to paddy growers in Haryana has led to development of long term relationships with the suppliers and therefore easy procurement of raw materials. On the customer side, long track record has enabled the company to establish strong business relationships with its clientele in the market, which in turn leads to repeat orders.

Liquidity: Adequate- The current and quick ratio of the company remained moderate at 1.86x and 0.88x as on March 31, 2019. The company has nil debt repayment obligation in FY20, with no repayment of unsecured loans projected during the year. The company does not have any major capex plans in the near future.The operating cycle of the company stood at ~99 days as on March 31, 2019. The company had free cash & bank balance of Rs. 0.40 Cr., as on March 31, 2019. The average working capital utilization stood at approximately 97% for the twelve months period ended November-2019.

Analytical Approach: Standalone. The ratings were earlier assigned on the basis of a combined approach wherein the financial and business risk profiles of SKF, KCPL, RLAF and ARM were combined. However, due to a planned partition of businesses within the family, there will be a change in both the management as well as the shareholding structure of KCPL, S. K. Foods (SKF; CARE BB; Stable), R.L. Agro Foods Private Limited (RLAF; CARE B; Stable; Issuer Not Cooperating) and Anand Rice Mills (ARM; CARE B; Stable; Issuer Not Cooperating) in the near future. Owing to uncertainty in the same, a stand-alone approach has been adopted for KCPL.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's policy on default recognition

About the Company

KCPL is engaged in the business of milling and processing of basmati rice. In FY19, the company achieved ~94% of the total income from the domestic market and remaining ~6% from the export market (sales to UAE). The company is also engaged in the procurement of semi-processed rice from the market which is further processed through color sorter and grading machines to remove the impurities. The company has an installed manufacturing capacity of 16 metric tonnes per hour in Nissing (Karnal, Haryana). The operations of KCPL are presently being managed by Mr. Kamal Singla and Mr. Dinesh Kumar. The group concerns/related parties of the KCPL include S.K. Foods (SKF; CARE BB; Stable), Anand Rice Mills (ARM; CARE B; Stable; Issuer Not Cooperating) and R.L. Agro Foods Private Limited (RLAF; CARE B; Stable; Issuer Not Cooperating) which are also engaged in the rice milling business.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	280.10	281.18
PBILDT	6.40	5.65
PAT	0.84	0.32
Overall gearing (times)	5.25	3.16
Interest coverage (times)	1.53	1.26

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified Krish Cereals Private Limited as “Not cooperating” vide its press release dated December 27, 2019.
ICRA has conducted the review on the basis of best available information and has classified S.K. Foods as “Not Cooperating” vide its press release dated February 28, 2019.

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
Fund-based - LT-Cash Credit	-	-	-	23.00	CARE BB; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (29-Oct-18) 2)CARE BB-; ISSUER NOT COOPERATING* (12-Jul-18)	1)CARE BB; ISSUER NOT COOPERATING* (07-Apr-17)	-
2.	Fund-based - LT-Cash Credit	LT	23.00	CARE BB; Stable	-	1)CARE BB+; Stable (29-Oct-18) 2)CARE BB-; ISSUER NOT COOPERATING* (12-Jul-18)	1)CARE BB; ISSUER NOT COOPERATING* (07-Apr-17)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

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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