

Krish Cereals Private Limited

April 07, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund-based)	8.46	CARE BB; ISSUER NOT COOPERATING (DOUBLE B; ISSUER NOT COOPERATING)	Issuer not cooperating; Based on best available information.
Long-term Bank Facilities (Term Loan)	1.54	CARE BB; ISSUER NOT COOPERATING (DOUBLE B; ISSUER NOT COOPERATING)	Issuer not cooperating; Based on best available information.
Total	10.00 (Rupees Ten crore only)		

¹Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Krish Cereals Private Limited (KCPL) to monitor the rating vide e-mail communications/letters dated December 30, 2016, January 12, 2017, February 07, 2017 & March 10, 2017 and numerous phone calls. However, despite our repeated requests, the KCPL has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Krish Cereals Private Ltd.'s bank facilities will now be denoted as **CARE BB; 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 ratings.

The rating takes into account low profitability margins, moderate capital structure and customer concentration risk. The rating also factors in working capital intensive nature of operations, susceptibility of profitability margins to raw material prices and highly regulated and fragmented nature of the rice processing industry with low entry barriers. However, the rating derives strength from the experience of the promoters and management of the company, continuously increasing scale of operations and proximity to raw materials.

Detailed description of the key rating drivers

At the time of last rating on October 27, 2015 the following were the rating strengths and weaknesses (updated for the information available):

Key Rating Strengths

Experienced Promoters: The promoters of KCPL, Mr. Kamal Singla and Mr. Dinesh Kumar have rich experience of nearly 10 years and 5 years in the rice milling and processing industry. Additionally, the company is supported in its operations by an experienced management team.

Constantly increasing scale of operations: KCPL has registered a compounded annual growth rate of 53% in its total operating income for the period of FY14-FY16 (refers to the period April 1 to March 31) to Rs.156.25 crore. In FY16, the total operating income grew by 34.52% from the previous year.

Key Rating Weaknesses

Low profitability margins and modest capital structure: During FY16, the sales have increased despite the continuance of low prices of basmati during the year resulting in an increase of ~35% increase in the total income during FY16. However, KCPL reported a meager PAT of Rs. 0.87 crore in FY16 (PAT of Rs. 0.81 crore in FY15). During FY16, TDGCA deteriorated on to 24.40x as on March 31, 2016 from 7.74x as on March 31, 2015. The overall gearing also deteriorated to 5.42x as on March 31, 2016, vis-à-vis 2.01x as on March 31, 2015. The debt service indicators of the company remained moderate with PBILDT interest coverage decreasing to 2.24 times during FY16 (as against 2.28 times as on March 31, 2015).

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

Working capital intensive nature of operations: Paddy, being a seasonal commodity, needs to be stocked for the entire year's requirement. Further, basmati rice requires longer ageing period for better quality thereby elongating the working capital cycle. KCPL's average inventory holding levels were 92 days during FY16 and 137 days for FY15. The average collection days have substantially increased to 81 days during FY16 from 8 days in FY15. The inventory holding & the collection period levels have put stress on the overall working capital cycle for the company (84 days in FY16 and 84 days in FY15).

Customer concentration risk: The company largely sells its produce of Basmati rice to bulk buyers (who further resell in the export markets). The sales to top customers constituted 83% of the total sales for FY15 exposing the company to customer concentration risk.

Susceptibility of profitability margins to volatility in raw material prices: Paddy is the major raw material for rice processing. The prices of paddy (basmati variety) are highly volatile due to supply-side constraints like seasonal nature and exposure to the vagaries of monsoon. The company procures majority of its raw material during the harvest season, i.e., October – January. Given the time lag between raw material procurement and realization of inventory, the company is exposed to the risk of adverse price movement. KCPL being the supplier to rice exporting companies faces the risk of export curtailment.

Susceptibility to government regulations 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. KCPL has emerged as one of the dominant Indian players in the basmati rice industry.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Krish Cereals Pvt. Ltd. (KCPL) was incorporated in December 2010 is promoted by Mr. Dinesh Kumar and Mr. Kamal Singla of Karnal, Haryana. The company is engaged in milling and processing of basmati rice (90% PUSA 1121 grade Basmati rice, 10% other qualities of Basmati rice) for the domestic as well as export markets. The company was initially engaged in trading of rice and commenced rice milling and processing operations in September 2013 at its manufacturing facility located near Shambli road, Nissing (Karnal), with an installed capacity of 35000 Metric Tonnes Per Annum (MTPAs) as on March 31, 2014 which was enhanced to 40000 MTPAs, as on March 31, 2015.

Long-grain paddy, which is the basic raw material for rice processing is bought from the arhatiyas stationed at grain mandis/markets of Haryana. It also purchases semi processed rice from various millers and processes it in its mill. Within the domestic market, the company supplies a major proportion of its produce to the exporters in the states of Delhi and Gujarat, with the other markets being Haryana, Uttar Pradesh, Punjab and Maharashtra.

During FY16 (refers to the period April 1 to March 31), KCPL has registered a total income of Rs. 156.25 crore with PAT of Rs. 0.87 crore as against a total income of Rs. 115.92 crore with PAT of Rs. 0.81 crore in FY15.

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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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.

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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-Term Loan	-	-	April 2018	1.54	CARE BB; ISSUER NOT COOPERATING
Fund-based - LT-Cash Credit	-	-	-	8.46	CARE BB; ISSUER NOT COOPERATING

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-Term Loan	LT	0.84	Suspended	-	-	-	1)Suspended (10-Feb-14)
2.	Fund-based - LT-Cash Credit	LT	6.50	Suspended	-	-	-	1)Suspended (10-Feb-14)
3.	Non-fund-based - ST-Forward Contract	ST	0.15	Suspended	-	-	-	1)Suspended (10-Feb-14)
4.	Fund-based - LT-Term Loan	LT	1.54	CARE BB; ISSUER NOT COOPERATING	-	1)CARE BB (27-Oct-15)	-	-
5.	Fund-based - LT-Cash Credit	LT	8.46	CARE BB; ISSUER NOT COOPERATING	-	1)CARE BB (27-Oct-15)	-	-

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