

Krish Cereals Private Limited
 July 12, 2018

Ratings

Facilities*	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	10.00	CARE BB-; ISSUER NOT COOPERATING** (DOUBLE B MINUS; ISSUER NOT COOPERATING)	Issuer not cooperating; revised from CARE BB; Issuer Not Cooperating (Double B; Issuer Not Cooperating) on the basis of best available information.
Total	10.00 (Rs. Ten crores only)		

*Details of instruments/facilities in Annexure-1

**Issuer did not cooperate; Based on best available information

Detailed Rationale & Key Rating Drivers

CARE has been seeking information/NDS from Krish Cereals Pvt Ltd (KCPL) to monitor the ratings vide e-mail communications/ letters dated July 02, 2018, June 22, 2018, May 28, 2018, May 16, 2018, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating.** In line with the extant SEBI guidelines CARE's rating on KCPL'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 revision in rating takes into account low profitability margins, deterioration of financial risk profile 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 March 21, 2017 the following were the rating strengths and weaknesses (updated for the information available):

Key Rating Weaknesses

Low profitability margins and modest capital structure: During FY17, the sales have increased however, KCPL reported a meager PAT of Rs. 0.75 crore (PY: Rs. 0.87 crore). During FY17, TDGCA deteriorated on to 48.69x as on March 31, 2017 from 24.40x as on March 31, 2016. The overall gearing also deteriorated to 8.58x as on March 31, 2017, vis-à-vis 5.42x as on March 31, 2015. The debt service indicators of the company remained moderate with PBILDT interest coverage improving to 1.70 times during FY17 (as against 2.24 times in FY16).

Weak financial risk profile: The overall gearing of the company deteriorated to 8.58x as on March 31, 2017 from 5.42x as on March 31, 2016 due to increase in total debt during the financial year. The interest coverage showed improvement and stood at 1.70x in FY17 (PY: 2.24x). However, lower reported PAT resulted in higher TD/GDA at 48.69x as on March 31, 2018 (PY: 24.40x).

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

Working capital intensive nature of operations: KCPL's average inventory holding levels were 77 days during FY17 and 92 days for FY16. The average collection days have substantially increased to 113 days during FY17 from 81 days in FY16. The inventory holding & the collection period levels have put stress on the overall working capital cycle for the company (108 days in FY17 and 84 days in FY16).

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.

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 48% in its total operating income for the period of FY15-FY17 (refers to the period April 1 to March 31) to Rs.253.25 crore. In FY17, the total operating income grew by 62% from the previous year.

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](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for 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.

During FY17, KCPL has registered a total income of Rs. 253.25 crore with PAT of Rs. 0.75 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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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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	-	-	-	1.54	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	8.46	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; ISSUER NOT COOPERATING* on the basis of best available information

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1.54	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB; ISSUER NOT COOPERATING* (07-Apr-17)	-	1)CARE BB (27-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	8.46	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB; ISSUER NOT COOPERATING* (07-Apr-17)	-	1)CARE BB (27-Oct-15)

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