Krish Cereals Private Limited

October 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	23.00 (enhanced from 10.00)	**CARE BB+; Stable [Double B Plus; Outlook: Stable]**	Revised from CARE BB-; ISSUER NOT COOPERATING (Double B Minus; ISSUER NOT COOPERATING)
Total Facilities	**23.00 (Rs. Twenty three crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

While arriving at the rating of Krish Cereals Private Limited (KCPL), CARE has taken a combined view of KCPL, R. L. Agro Foods Private Limited (RLAF), Anand Rice Mills (ARM) and S.K. Foods (SKF) as all the entities are in the same line of business, have the same promoters and a common management team.

The rating assigned to the bank facilities of KCPL is constrained by the group's low profitability margins, weak solvency position and working capital intensive nature of operations. The rating is further constrained by the susceptibility of profitability margins to fluctuations in raw material prices and monsoon dependent operations, fragmented nature of the industry coupled with high level of government regulation.

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

Going forward, the ability of the group to profitably scale-up its operations and efficiently manage its working capital requirements will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Low profitability margins with weak solvency position: The group's profitability margins have remained at a low level in the past with range of 2.91% to 3.86% during the past 3 years (FY16 to FY18) on account of high revenue (of close to ~50%) from the sale of semi-processed rice whereby the margins are relatively lower. During FY18, the group's PBILDT margin declined by 17 bps *(from 3.08% in FY17 to 2.91% in FY18)* mainly on account of increased proportion of sales from the procurement of semi-processed rice. Subsequently, the PAT margin of the group also witnessed a decrease of 5 bps during FY18 *(0.22%)* as against FY17 *(0.28%).* The group has a weak capital structure on account of high working capital borrowings availed for procurement of paddy and semi-processed rice and high unsecured loans infused by the promoters & related parties. The long-term debt to equity (D:E) ratio and overall gearing ratios stood at 0.93x (PY: 1.34x) and 4.69x (PY: 4.84x), respectively, as on March 31, 2018. The debt coverage indicators also remained weak marked by total debt to GCA ratio of 78.56x (PY: 71.03x) and interest coverage ratio of 1.21x in FY17 (PY: 1.24x), as on March 31, 2018.

Working capital intensive nature of operations: The average operating cycle of the group remained elongated at ~138 days as on March 31, 2018 on account of high inventory period. Owing to the seasonality of rice harvest (October to December), rice shellers have to maintain suitable raw material inventory to ensure uninterrupted production throughout the year. On account of high operating cycle, the group's average utilization of the working capital limits remained at a high level of ~97% for the 12 month period ended Aug-18.

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 group 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

Growing scale of operations: The group's total operating income increased at a CAGR of ~19% in the FY16-FY18 period. The group reported total operational income of Rs.994.06 crore in FY18 as against Rs.860.17 crore in FY17, an increase of ~16% primarily on account of addition of new customers leading to sale of higher quantity both in the domestic and export market.

Experienced and resourceful promoter with long track record of operations in the rice industry: The operations of the group are currently being managed by the brothers Mr. Subhash Chand and Mr. Suriender Kumar along with Mr. Kamal Singla (Son of Mr. Subhash), Mr. Sunil Kumar (Son of Mr. Subhash), Mr. Dinesh Kumar (Son of Mr. Suriender) and Mr. Pankaj Singla (Son of Mr. Suriender). The promoters are assisted by an experienced team of professionals for carrying out the day-to-day operations of the company. The long track record of operations has enabled the group to establish strong business relationship with its clients and suppliers. Furthermore, the promoters of the group are resourceful. The amount of unsecured loans infused by the promoters & related parties, in the group, stood at Rs.95.66 crore as on March 31, 2018, which are interest free in nature. CARE has treated unsecured loan worth Rs.30.47 crore as part of net-worth and the remaining Rs.65.19 crore as debt.

Favorable manufacturing location along with established business relationship with customers and suppliers: The group's manufacturing units are located in Nissing (Karnal, Haryana). Presence of the group in the rice industry for over two decades and 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 group to establish strong business relationships with its clientele in the market, which in turn leads to repeat orders. In FY18, the group realized ~92% of the total income from domestic market while remaining from the export market.

Analytical approach: Combined Approach. The financial and business risk profiles of KCPL, R. L. Agro Foods Private Limited (RLAF), Anand Rice Mills (ARM) and S.K. Foods (SKF) have been combined as the four entities (together referred to as 'Group') are in the same line of business, have the same promoters and a common management team. In the last review held, CARE had taken a stand-alone approach while assigning ratings to the bank facilities of KCPL.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

KCPL, incorporated in 2010, is engaged in the business of milling and processing of basmati rice with an installed manufacturing capacity of 16 metric tonnes per hour (MTPH) in Nissing (Karnal, Haryana). In FY18, the company realized ~94% of the total income from domestic market and remaining from the export market. KCPL has 3 group companies namely- R. L. Agro Foods Private Limited (RLAF- rated CARE BB+; Stable), Anand Rice Mills and S.K. Foods which are engaged in the same line of business with an installed manufacturing capacity of 16 MTPH, 8MTPH and 6 MTPH, respectively.

Brief Financials (KCPL; Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	253.25	280.10
PBILDT	6.01	6.40
PAT	0.75	0.84
Overall gearing (times)	8.58	5.25
Interest coverage (times)	1.70	1.53

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 "Non cooperating" vide its press release dated September 03, 2018.

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

About CARE Ratings:
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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	-	-	-	0.00	Withdrawn
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 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)CARE BB-; ISSUER NOT COOPERATING* (12-Jul-18)	1)CARE BB; ISSUER NOT COOPERATING* (07-Apr-17)	-	1)CARE BB (27-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	23.00	CARE BB+; Stable	1)CARE BB-; ISSUER NOT COOPERATING* (12-Jul-18)	1)CARE BB; ISSUER NOT COOPERATING* (07-Apr-17)	-	1)CARE BB (27-Oct-15)

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