

Shri Karpadha Agro Foods

May 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	9.40	CARE BB-; ISSUER NOT COOPERATING* (Double B ; ISSUER NOT COOPERATING*)	Issuer not cooperating
Total	9.40 (Rupees Nine crore and forty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from ShriKarpadha Agro Foods (SKAF) to monitor the rating vide e-mail communications/ letters dated November 17, 2016, December 02, 2016, April 11, 2017 and numerous phone calls. However, despite our repeated requests, the entity 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 Shri Karpadha Agro Foods's bank facilities and 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 rating(s).

Detailed description of the key rating drivers

Key Rating Weaknesses

Fluctuating profit margins due to dependence on the vagaries of the monsoon which determines supply of paddy : Agro-based industry is characterized by its seasonality, as it is dependent on the availability of raw materials, which further varies with different harvesting periods. The prices of rice move in tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions.

The PBILDT margins of SKAF were fluctuating between 4.90% and 3.95% during the period FY13-FY15. In FY15, the PBILDT margin declined by 30 bps due to increase in material cost. However, PAT margin is in the increasing trend during the period FY13-FY15 on a low base though (ranging between 0.25% in FY12 and 0.51% FY15). In FY15, the PAT margin increased marginally by 8 bps despite the increase in interest cost on the back of growth in total operating income and lesser depreciation (due to change in the depreciation accounting as per Companies Act whereby, the useful life of the asset to be considered to arrive at the depreciation).

Interest cost increased due to higher utilization of the working capital facility during the year and increase in the interest provisioned towards partner's capital. However, by treating the interest to partners' capital as dividend paid, the PAT margin will be at 1.32% in FY15.

Working capital intensive nature of operations: SKAF procures paddy from Tamil nadu (approx. 85% of the total paddy purchase), Andhra Pradesh and Karnataka. SKAF enjoys credit period upto 15 days while on sales SKAF provides credit period upto 30 days. Inventory holding period stands high due to the nature of operations. A part of procured paddy will be held for ageing. This led to high operating cycle in FY15.

Moderate capital structure albeit weak debt protection metrics in FY15 : The term debt as on March 31, 2015 stood low at Rs.0.34 cr (consisting 94% of unsecured loans from friends and relatives) resulting in moderate capital structure indicated by debt equity ratio (at 0.06 x as of March 31, 2015). With the scheduled repayments in term loan and repayment of part of unsecured borrowings (to the extent of Rs.0.18 cr) led to improvement in the overall gearing ratio from 1.60 x as on March 31, 2014 to 1.40 x as on March 31, 2015. Total debt/GCA stood high at 16.74 times in FY15. It is primarily due to working capital facility and the unsecured loan.

However the capital structure and the debt protection metrics are expected to deteriorate in FY16 as 3 of partners retired in April 2015 and the capital contributed by them (to the extent of Rs.4.11 cr) is likely to remain in the system as unsecured borrowings from relatives.

Key Rating Strengths

Long experience of promoters' family in rice milling industry: Mr.P.Palanisamy is the main promoter of SKAF and has an overall experience of 17 years in this industry. Prior to establishment of KAF, he was engaged in rice milling business as a partner in a firm established by family members. Subsequently, he retired from that firm and established KAF. Mr.P.Kalaivanan, one of the promoters is an Electronics and Electrical Engineering graduate and is looking after

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

machinery maintenance. Mr.P.Arul, presently the Managing Partner in SKAF is an MBA graduate. Prior to establishment of KAF, he was assisting in rice milling business established by family members looking after the overall operations. Ms. Lalithambigai, partner joined the firm from April 2016 and is presently looking after administration and finance.

Healthy growth in total operating income : SKAF recorded growth in the total operating income at a CAGR of 23.48% for the period FY13-FY15. In FY15, the total income grew by 28% primarily due to increase of client base. In 10MFY16, SKAF achieved a total income of Rs.32 cr.

Healthy demand outlook of rice in a fragmented nature of industry with Government regulations : Rice is consumed in large quantity in India, especially in the South, where it is the staple food, which provides favorable opportunity for the rice millers and thus the demand is expected to remain healthy over medium to long term, India is the second largest producer of rice in the world after China and the largest producer and exporter of basmati rice in the world.

The commodity nature of the product makes the industry highly fragmented with numerous players operating in the unorganized sector with very less product differentiation. The Government of India (GOI), every year decides a minimum support price (MSP - to be paid to paddy growers) for paddy. The MSP of paddy has been increased during the crop year 2014-2015 to Rs.1360/quintal from Rs.1310/quintal in 2013-14. Given the market determined prices for finished product vis-à-vis fixed acquisition cost for raw material, the profitability margins of rice millers are highly vulnerable, especially in times of high paddy harvest.

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](#)

[Rating Methodology for Cotton Yarn Industry](#)

About the Company

ShriKarpadha Agro Foods (SKAF) is a partnership firm engaged in rice milling business and the present partners are Mr.Arul and Ms.Lalithambigai. Originally the firm was established in 2006 in the name of "Karpadha Agro Foods" (KAF) promoted by Mr.P.Palanisamy, Mrs.P.Dhanam, Mr.P.Kalaivanan and Mr.P.Arul. Subsequently the partnership was reconstituted in April 2015. The installed capacity of SKAF is 50 MT per day as of February 29, 2016 and SKAF utilizes 85% of its installed capacity on an average. SKAF owns storage capacity of 25,000 bags and a rented warehouse of capacity 20,000 bags.

SKAF procure paddy primarily from farmers and traders in Tamil nadu. After processing, the rice is packed in 25 kg (80% of the rice sale), 50 kg, and 75 kg bags and marketed with their own brand name "Karpadha" and "Pavai" across Tamil nadu. The client base of SKAF consists of both wholesalers (50%) and retailers (50%).

By product bran is sold to oil manufacturers in Vilupuram district and husk is used captively as fuel for power generation.

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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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	-	-	August 2021	0.90	CARE BB-; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	8.50	CARE BB-; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on 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 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	0.90	CARE BB-; ISSUER NOT COOPERATING*	-	1)CARE BB- (18-May-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	8.50	CARE BB-; ISSUER NOT COOPERATING*	-	1)CARE BB- (18-May-16)	-	-

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

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CIN - L67190MH1993PLC071691