

Press Release

Kuber Foods

October 01, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	17.00 Cr. (Enhanced from Rs. 15.00 Cr)
Long Term Rating	ACUITE BB-/Stable

*Refer annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 14.00 crore bank facilities of Kuber Foods (KF). The outlook is '**Stable**'.

Further Acuité has assigned long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 3.00 crore bank facilities of Kuber Foods (KF). The outlook is '**Stable**'.

Kuber Foods, a partnership firm was established in 2002 by Mr. Rajeev Kumar and Mr. Anil Kumar. The firm is engaged in the milling of paddy and processing of rice and also generates byproducts such as broken rice, husk and bran. The manufacturing facility is located at Tarori in Karnal (Haryana) with installed capacity of 1.50 tonnes per hour.

Analytical Approach:

Acuité has considered the standalone business and financial risk profiles of Kuber Foods to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management:

KF is a partnership firm formed in 2002. At present, there are two partners in the firm each having 50 percent share in profit. Mr. Anil Kumar is the driving force behind the business. He started Kuber Rice, a trading business in 1994, later he separated from his partners and started a new partnership firm under the name of Kuber Foods along with his cousin brother-Mr. Rajiv Kumar. Mr. Rajiv Kumar also has more than two decades of experience in the rice industry.

Improvement in operating income and profitability margins:

The firm has registered Y-o-Y growth in revenue during the period FY2015 to FY2018 under the study. The revenue stood at Rs.80.66 crore in FY2018 as against Rs.69.53 crore in FY2017 and Rs.36.63 crore in FY2016. The reason for increase in revenue was because of new customers added from Middle East Countries like Qatar and UAE to the existing business profile in FY2017. The firm is expecting the same growth going ahead from these customers. Further, the firm has registered revenues of Rs. ~31.00 crore for the period April to August, 2018.

The profitability margins of the firm have improved during the period FY2016 to FY2018 under the study. The EBITDA margin stood at 2.21 percent in FY2018 as against 2.06 percent in FY2017. The margin has improved on account of good crop cultivation in FY2018 and decline in selling expenses related to advertisement in FY2018 over FY2017. The PAT margins have also improved to 0.60 percent in FY2018 as against 0.52 percent in FY2017.

Average financial risk profile:

The financial risk profile of KF remains average marked by average net worth and debt coverage indicators. The tangible net worth stood at Rs.8.30 crore as on 31 March, 2018 which includes unsecured loans to the tune of Rs.7.25 crore considered as quasi equity. While the net worth stood at Rs.5.62 crore as on 31 March 2017. The gearing stood at 1.46 times as on 31 March, 2018 as against 1.63 times as on 31 March, 2017. The total debt of Rs.12.09 crore outstanding as on 31 March, 2018 is working capital borrowings from the bank and the firm has no long term debt obligations. The interest coverage ratio stood at 1.41 times in FY2018 as against 1.39 times in FY2017. The net cash accruals of the company stood at Rs.0.53 crore in FY2018 as against Rs.0.40 crore in FY2017.

Acuité believes that the financial risk profile of KF will remain average over the medium term in the absence of any major capital expenditure plan.

Weaknesses**Working capital intensive nature of operations:**

KF has working capital intensive nature of operations marked by high Gross Current Assets (GCA) of 133 days in FY2018 as against 110 days in FY2017. This is majorly on account of high operating cycle of 60 to 70 days. The inventory holding period and receivable days stood at 65 to 70 days in FY2018. The average bank limit utilisation stood at ~80-90 percent for last six months ended August 2018. Acuité believes that being into exports of rice the operations of KF will remain working capital intensive because of high operating cycle.

Agro climatic risk:

Paddy which is the main raw material required for rice is a seasonal crop and the production of the same is highly dependent upon monsoon season. Thus, inadequate rainfall may affect the availability of paddy in adverse weather conditions. The firm is exposed to the risk related with fluctuation in raw material price. As paddy price is largely dependent on several external factors like domestic demand outlook, international trade regulations and domestic productions. Thus, the firm is exposed to significant risk related with raw material fluctuation.

Outlook – Stable

Acuité believes that Kuber Food will maintain 'Stable' outlook on the back of the management's extensive experience in the rice milling business. The outlook may be revised to 'Positive' in case of improvement in profitability and capital structure while improving the scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile.

About the rated entity- Key financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	80.66	69.53	36.63
EBITDA	Rs. Cr.	1.72	1.43	0.67
PAT	Rs. Cr.	0.43	0.36	0.17
EBITDA Margin	(%)	2.13	2.06	1.84
PAT Margin	(%)	0.53	0.52	0.46
ROCE	(%)	9.68	10.18	6.57
Total Debt/Tangible Net Worth	Times	1.46	1.63	1.59
PBDIT/Interest	Times	1.37	1.39	1.37
Total Debt/PBDIT	Times	6.95	6.39	11.26
Gross Current Assets (Days)	Days	133	110	112

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Nov-2017	Cash Credit	Long term	8.50 (Enhanced from Rs. 6.50 cr)	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
	Proposed cash credit	Long term	1.50	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
	Proposed inventory funding	Long term	5.00	ACUITE BB-/Stable (Assigned)
07-Dec-2016	Cash Credit	Long term	6.50	ACUITE B+/Stable (Reaffirmed)
	Proposed cash credit	Long term	3.50	ACUITE B+/Stable (Reaffirmed)
31-Oct-2015	Cash Credit	Long term	6.50	ACUITE B+/Stable (Assigned)
	Proposed cash credit	Long term	3.50	ACUITE B+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs.8.50 cr)	ACUITE BB-/Stable (Reaffirmed)
Proposed cash credit	Not Applicable	Not Applicable	Not Applicable	2.00 (Enhanced from Rs.1.50 Cr)	ACUITE BB-/Stable (Reaffirmed)
Proposed inventory funding	Not Applicable	Not Applicable	Not Applicable	2.00 (Revised from Rs. 5.00 Cr)	ACUITE BB-/Stable (Reaffirmed)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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