

Press Release

Kuber Foods

October 07, 2019

Rating Downgraded and Assigned



Total Bank Facilities Rated*	Rs. 20.00 crore (Enhanced from Rs. 17.00 crore)
Long Term Rating	ACUITE B+/Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**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 short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 6.00 crore bank facilities of KF.

The downgrade in the rating is on the account of uneven revenue trend, declined net cash accruals, average financial risk profile and weak debt protection metrics. The operating income stood at Rs. 75.38 crore in FY2019 (Provisional) as against to Rs. 80.69 crore in FY2018 and Rs. 70.05 crore in FY2017. Also, the Net Cash Accruals declined to Rs. 0.25 crore in FY2019 (Provisional) as against to Rs. 0.37 crore in FY2018 leading to stretched liquidity position.

Haryana-based, Kuber Foods is a partnership firm established by Mr. Rajeev Kumar and Mr. Anil Kumar in 2002. The firm is engaged in the business of milling of paddy, processing and selling of Basmati Rice and its by-products viz husk, bran and broken rice. The manufacturing facility is located at Taraori in Karnal (Haryana) with installed capacity of 1.50 tons 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

- **Established track record of operations and experienced management**

The partners, Mr. Rajeev Kumar and Mr. Anil Kumar, have an extensive experience of over two decades in the rice industry. Further, having more than two decades of operational track record has enabled the firm to maintain healthy relation with its customers. Acuité believes that KF will continue to benefit from its long track record of operations and experienced management.

Weaknesses

- **Average financial risk profile and uneven revenue trend**

KF financial risk profile is average, marked by a low net worth, average gearing (debt-to-equity) and modest debt protection measures.

KF's net worth has remained low at around Rs. 6.24 crore as on March 31, 2019 (Provisional) as against Rs.5.85 crore in FY2018. The net worth levels have remained low due to average operating margins. The revenue of the firm is expected to remain in the range of Rs. 79.17 crore to Rs. 85.63 crore over the medium term. Acuité expects the net worth to remain modest in the range of Rs. 6.58 crore to Rs. 7.70 crore over the medium term, in the absence of any equity infusion by the promoters. The working capital is efficiently managed as is reflected by GCA of 112 days in FY2019 (Provisional) as against 133 days in FY2018. This is on account of debtor's collection period of 74 days and inventory holding period of 38 days. Further, the credit payback period stands to be 42 days for the FY2019 (Provisional).

The leverage levels continue to remain improved to around 1.83 times as on March 31, 2019 (Provisional). The firm generated cash accruals in the range of Rs. 0.40 crore to Rs. 0.25 crore over the period from FY2017 to FY2019 (Provisional). Lower accruals has led to higher debt levels as on March 31, 2019 (Provisional). The revenue of the firm decreased by around 6.58 per cent to Rs. 75.38 crore during 2018-19 (Provisional), while its operating margins remained stable in the range of 2.01 per cent to 2.45 per cent. The low profitability coupled with average gearing level has led to average debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 (Provisional) were low at 0.02 times and 1.16 times, respectively. The PAT has been declining due to increase in the interest cost along with the utilization of bank limits of around 90 percent.

The revenue of the firm remained volatile at Rs. 75.38 crore during 2018-19 (Provisional) as against Rs. 80.69 crore in FY2018 and Rs. 70.05 crore in FY2017, while its operating margins improved from 2.01 per cent in FY2018 to 2.45 per cent in FY2019 (Provisional). The NCA/TD and interest coverage ratio for FY 2019 (Provisional) remained modest at 0.02 times and 1.16 times, respectively.

Acuite believes that the financial risk profile of KF will continue to remain average over the near to medium term.

• **Susceptibility of operating margins to volatility in raw material prices**

KF processes basmati rice, which is sold to key customers based from Dubai, Yemen, Iraq, amongst others, where the firm has limited bargaining power due to high competitive pressures within the industry. The firm, on the other hand, procures paddy and rice as raw materials through domestic markets, the prices of which have remained volatile in the past. Further, KF has limited flexibility while passing on the raw material price changes to the customers leading to volatile profitability as reflected in the decrease of PAT margin from 0.52 per cent in FY2017 to 0.29 per cent in FY2019 (Provisional) and also decrease in the net cash accrual margin from 0.57 per cent in FY2017 to 0.33 per cent in FY2019 (Provisional) over the last three years.

Rating sensitivity factor

- Significant improvement in financial risk profile.
- Improvement in revenue, while maintaining profitability margins.

Material Covenants

None

Liquidity position: Stretched

The firm has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.25 crore for FY2019 (Provisional), while its maturing debt obligations were Rs. 0.25 crore for the same period. The cash accruals of the firm is estimated to remain around Rs. 0.39 crore to Rs. 0.66 crore during 2020-22 against repayment obligations of around Rs. 0.25 crore. The firm's working capital operations are intensive marked by gross current asset (GCA) days of 112 days for FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 0.03 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.32 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain stressed over the medium term on account of low cash accrual against moderate debt repayments over the medium term.

Outlook: Stable

Acuite believes that KF will continue to benefit over the medium term due to its long track record of operations, experienced management and established relations with its customers. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to 'Negative', if the firm generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19(Provisional)	FY18(Actual)	FY17(Actual)
Operating Income	Rs. Cr.	75.38	80.69	70.05
EBITDA	Rs. Cr.	1.85	1.62	1.43
PAT	Rs. Cr.	0.22	0.33	0.36
EBITDA Margin	(%)	2.45	2.01	2.04
PAT Margin	(%)	0.29	0.41	0.52
ROCE	(%)	9.52	9.14	10.19
Total Debt/Tangible Net Worth	Times	1.83	2.49	1.63
PBDIT/Interest	Times	1.16	1.29	1.39
Total Debt/PBDIT	Times	6.17	8.84	6.39
Gross Current Assets (Days)	Days	112	133	109

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
October 01, 2018	Cash Credit	Long Term	10.00	ACUITE BB- (Reaffirmed)
	Proposed Cash Credit	Long Term	2.00	ACUITE BB- (Reaffirmed)
	Proposed Inventory Funding	Long Term	2.00	ACUITE BB- (Reaffirmed)
	Inventory Funding	Long Term	3.00	ACUITE BB- (Assigned)
November 08, 2017	Cash Credit	Long Term	8.50	ACUITE BB-/ Stable (Upgraded)
	Proposed Cash Credit	Long Term	1.50	ACUITE BB-/ Stable (Upgraded)
	Proposed Inventory Funding	Long Term	5.00	ACUITE BB-/ Stable (Assigned)
December 07, 2016	Cash Credit	Long Term	6.50	ACUITE B+/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	3.50	ACUITE B+/ Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.70 (Revised from Rs. 10 crore)	ACUITE B+/ Stable (Downgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.00*	ACUITE B+/ Stable (Assigned)
Proposed Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.30 (Revised from Rs.2 crore)	ACUITE B+/ Stable (Downgraded)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+/ Stable (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Assigned)

*The Foreign Documentary Bill Purchased (FDBP) is within the sublimit of Packing Credit

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About Acuite Ratings & Research:

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