

Press Release

Rainbow Rice Private Limited

17 January, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs.48.00 Cr.
Long Term Rating	SMERA BB-/ Outlook:Stable (Downgraded)

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long term rating on the Rs. 48.00 crore bank facilities of Rainbow Rice Private Limited (RRPL) to '**SMERA BB-**' (**read as SMERA double B minus**) from '**SMERA BB**' (**read as SMERA double B**). The outlook is '**Stable**'. The downgrade is due to significant increase in debt levels to fund high inventory levels, which is expected to impact the bottom line over the medium term.

Incorporated in 1998, RRPL is a Haryana-based company promoted by Mr. Sunil Kumar and Mr. Surinder Kumar. The company is engaged in the milling of rice and cotton seed crushing at Pehowa, Haryana. RRPL has installed capacity of 12 tons per hour (tph) for rice milling and a sortex plant with capacity of 20 tph. The company's installed capacity for cotton seed crushing is 200 quintals per day.

Key rating drivers

Strengths

Experienced management: The promoters, Mr. Sunil Kumar and Mr. Surinder Kumar have extensive experience of around two decades in the rice milling industry. Such experience has helped the promoters develop comfortable relationships with key suppliers and customers.

Growth in revenues along with profitability margins: RRPL has registered growth in revenue along with profitability margins during the period under study. The revenue for FY2017 stood at Rs.226.25 crore as against Rs.184.94 crore in FY2016 and Rs.152.14 crore in FY2015. The EBITDA margins stood at 5.83 per cent in FY2017 as against 4.75 per cent in FY2016. The margins improved on account of a good crop during FY2017 and decline in raw material cost as compared to FY2016.

Weaknesses

Average financial risk profile: The average financial risk profile is marked by moderate net worth, high gearing levels and modest debt protection metrics. The net worth stood at Rs.20.41 crore as on 31 March, 2017 compared to Rs.16.41 crore as on 31 March, 2016. The gearing increased from 3.43 times as on 31 March, 2016 to 5.99 times in the previous year since RRPL availed ware house receipts amounting to Rs.72.00 crore from various banks to fund working capital requirements. The entity has short term debt of Rs.120.99 crore and term loans of Rs.1.22 crore as on 31 March, 2017. The coverage indicators such as Interest Coverage Ratio (ICR) declined to 1.14 times as on 31 March, 2017 compared to 1.20 times as on 31 March, 2016 due to increased interest cost. Further, the Debt Service Coverage Ratio (DSCR) stood at 1.05 times as on 31 March, 2017 compared to 1.12 times as on 31 March, 2016. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.02 times as on 31 March, 2017.

Working capital intensive operations: RRPL has working capital intensive operations marked by high GCA days of 266 days in FY2017 as against 186 days in FY2016. This is majorly on account of high inventory holding period of 256 days in FY2017 as against 182 days in FY2016. The debtor days stood at 12 days in FY2017 as against 1 day in FY2016. The rice business is working capital intensive because of the need to store large quantities of paddy as the harvesting season is during September-November. Also, companies store rice in order to 'age' which improves its characteristics in terms of taste, aroma etc. and thus fetches better realizations.

Agro climatic risk: Paddy, the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon the monsoon. Thus inadequate rainfall may affect the availability of paddy in adverse weather conditions. The company is exposed to risk related to fluctuations in raw material prices. The price of paddy is largely dependent on several external factors including domestic demand outlook, international trade regulations and domestic production.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Rainbow Rice Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that the company will maintain a stable outlook on account of the management's extensive experience in the rice milling business. The outlook may be revised to 'Positive' in case of sustained increase in revenues and accruals while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue and accruals or further elongation of working capital cycle.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	226.25	184.94	152.14
EBITDA	Rs. Cr.	13.20	8.78	6.20
PAT	Rs. Cr.	0.73	0.69	0.77
EBITDA Margin	(%)	5.83	4.75	4.08
PAT Margin	(%)	0.32	0.37	0.51
ROCE	(%)	11.96	12.57	10.74
Total Debt/Tangible Net Worth	Times	7.47	5.26	6.01
PBDIT/Interest	Times	1.14	1.20	1.33
Total Debt/PBDIT	Times	1.05	1.12	1.26
Gross Current Assets (Days)	Days	266	186	212

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
08-Feb, 2017	Cash Credit	Long term	45.00	SMERA BB (Indicative)
	Term Loan	Long term	0.59	SMERA BB (Indicative)
	Term Loan	Long term	1.96	SMERA BB (Indicative)
	Proposed Working Capital Demand Loan	Long term	0.45	SMERA BB (Indicative)
05-Nov, 2015	Cash Credit	Long term	45.00	SMERA BB/Stable (Assigned)
	Term Loan	Long term	0.59	SMERA BB/Stable (Assigned)
	Term Loan	Long term	1.96	SMERA BB/Stable (Assigned)
	Proposed Working Capital Demand Loan	Long term	0.45	SMERA BB/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	40.00	SMERA BB-/ Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.23	SMERA BB-/ Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.99	SMERA BB-/ Stable (Downgraded)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	6.78	SMERA BB-/ Stable (Downgraded)

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ABOUT SMERA

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