

Press Release

Rohil Foods Private Limited (RFPL)

May 15, 2017

Rating Reaffirmed

Total Instruments Rated*	Rs. 20.00 Cr
Long Term Rating	SMERA BB-/Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long- term rating of '**SMERA BB-**' (**read as SMERA BB minus**) on the Rs. 20.00 crore bank facilities of Rohil Foods Private Limited (RFPL). The outlook is '**Stable**'.

RFPL is engaged in the milling of basmati and non-basmati rice since 2009. The company operates a rice mill at Kaithal, Haryana with an installed capacity of 12 metric tonnes per annum (MTPA). RFPL is also engaged in the trading of cotton seed oil, cotton cake, bran, husk and other agro commodities. Trading of these commodities, however, contribute approximately 3 per cent of the company's operating income. RFPL is promoted by Mr. Vinod Khurania, Mr. Praveen Khurania and Ms. Sonia Khurania.

The rating reaffirmation reflects the company's prudent financial risk profile marked by a conservative capital structure and efficient working capital cycle. The rating continues to draw support from the experienced management of the company and its longstanding relationship with various reputed clients in the rice industry.

The rating continues to be constrained by sustained decline in RFPL's operating income on account of moderation in rice prices coupled with lower than expected sales volumes over the last three years. The rating is also constrained by the expected moderation in RFPL's debt protection metrics over the near to medium term on account of the presence of substantial debt servicing commitments vis-à-vis RFPL's operating cash flows.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced Management: The rating continues to draw comfort from the longstanding experience of the promoters in the rice milling business. Mr. Vinod Kumar (Managing Director) is engaged in the business for over two decades. SMERA expects RFPL to continue to benefit from the long term relations of the promoters' with established clients in Punjab, Haryana, Uttar Pradesh and other states in North India.

Efficient Working Capital Management: RFPL is able to maintain a low bank limit utilization of ~60 per cent on account of its efficient inventory and receivables management. The company reported low inventory days of 44 days in FY2015-16 as against 29 days in the previous year

while the average collection period remained under 10 days for the last three financial years. This is primarily because majority of the sales of the company are realized in cash with minimal credit periods being extended to its clients. Further, the company's procurement policies are purely order backed – resulting in timely turnover of inventory and limiting the company's working capital requirements. Consequently, the Gross Current Asset (GCA) days of the company remained low at 50 days in FY2015-16 as against 32 days in FY2014-15.

SMERA expects RFPL to continue to maintain a low bank limit utilization and an efficient working capital cycle on account of its prudent procurement and receivables management policies. The company's ability to manage its debtors and ensure timely offtake of the inventory will remain key credit monitorables.

Weaknesses:

Sustained Decline in Operating Income: RFPL reported a continued decline in its operating income to Rs. 75.51 cr in FY2015-16 from Rs. 85.23 cr in FY2014-15. The company has faced challenges in growing its operating income on account of a sustained decline in rice prices due to unfavourable demand-supply dynamics in the export market. RFPL has also been facing intense competition from other rice mills in and around Haryana – resulting in a significant decline in its sales volumes.

SMERA expects RFPL to report a continued decline in its operating income in FY2016-17 primarily on account of lower than expected orders in the last quarter of the previous financial year. Continued pressure on RFPL's operating income can result in downward pressures on the company's credit risk profile.

Modest Profitability Margins: RFPL's operating profit margin continues to remain modest at 2.17 per cent in FY2015-16 vis-à-vis 1.74 per cent in FY2014-15. This is primarily on account of competitive pressures being faced by the company and significant inventory losses being reported on account of volatility in rice prices in the domestic and international markets.

In light of the demand-supply dynamics in the rice industry, SMERA expects RFPL's profitability margins to remain at the same levels. The company's ability to improve its operation efficiency shall be critical towards improving its credit risk profile over the near to medium term.

Deterioration in Debt Protection Metrics: RFPL is expected to experience some moderation on account of the limited cushion available between its operating cash flows vis-à-vis its fixed debt servicing commitments. This is primarily on account of substantial increase in debt servicing commitments over the last two financial years. Consequently, the company reported a marked increase in its debt-to-EBITDA ratio to 5.72 times in FY2015-16 from 4.48 times in FY2014-15.

Notwithstanding the increase in interest coverage to 1.63 times in FY2015-16 vis-à-vis 1.35 times in the previous year, the company reported a decline in its Debt Service Coverage Ratio (DSCR) to 1.19 times in FY2015-16 as against 1.24 times in FY2014-15. The moderation in DSCR is mainly on account of an increase in the long term debt servicing commitments of the company in the recent past.

RFPL has substantial amount of debt servicing commitments in the form of principal repayment on its term loans and interest outgo in its long term & short term working capital funds. SMERA believes that in case continued decline in operating cash flows, RFPL may require substantial refinancing efforts in order to service its debt obligations in a timely manner.

Analytical approach: SMERA has taken a standalone view of the above entity

Applicable Criteria

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

Outlook: Stable

SMERA believes that RFPL will maintain a stable outlook in the medium term owing to the experience of its management in the rice milling business and established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenues while maintaining its working capital cycle and improving profitability indicators. Conversely, the outlook may be revised to 'Negative' in case of continued decline in revenue and accruals or elongation of working capital cycle.

About the Rated Entity

RFPL is engaged in the milling of basmati and non-basmati rice. The company operates a rice mill at Kaithal, Haryana with an installed capacity of 12 Metric Tonnes Per Annum (MTPA). RFPL is also engaged in the trading of cotton seed oil, cotton cake, bran, husk and other agro commodities.

The company reported net profit of Rs.0.05 cr on operating income of Rs. 75.51 cr in FY2015-16, as compared with profit after tax (PAT) of Rs. 0.04 cr on operating income of Rs. 85.23 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): ICRA has suspended the long term rating assigned to the Rs. 20.00 crore long term bank facilities of RFPL vide its press release dated 17 June, 2016 on account of ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: NA

Rating History for the last three years:

Name of Instrument /Facilities	FY2018 (Current)			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	17.00	SMERA BB-/Stable (Reaffirmed)	14 Dec, 2015	SMERA BB-/Stable (Assigned)	-	-	-	-
Term Loan	LT	1.90	SMERA BB-/Stable (Reaffirmed)	14 Dec, 2015	SMERA BB-/Stable (Assigned)	-	-	-	-
Working Capital Demand Loan	LT	1.10	SMERA BB-/Stable (Reaffirmed)	-	-	-	-	-	-
Proposed Bank Facilities	LT	-	-	14 Dec, 2015	SMERA BB-/Stable (Assigned)	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	N.A	N.A	N.A.	17.00	SMERA BB-/Stable (Reaffirmed)
Term Loan	N.A	N.A	N.A.	1.90	SMERA BB-/Stable (Reaffirmed)
Working Capital Demand Loan	N.A	N.A	N.A.	1.10	SMERA BB-/Stable (Reaffirmed)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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