

Press Release

Raj Foods Industries (RFI)

June 04, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of **ACUITE A4** (**read as ACUITE A four**) on the Rs.11.00 crore bank facilities of Raj Foods Industries (RFI). The outlook is '**Stable**'.

The Raipur-based, Raj Foods Industries (RFI) is a proprietorship firm established in 2000. The firm is promoted by Mr. Tikam Das Sadhwani (Proprietor). The firm is engaged in the processing of rice. The manufacturing unit is located in Rajim (Chhattisgarh) with the installed capacity of 57600 metric tons of rice per annum.

Key Rating Drivers

Strengths

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

RFI has established an operational track record of over a decade in the rice milling industry. The proprietor, Mr. Tikam Das Sadhwani has over two decades of experience in the rice milling industry.

- **Proximity to raw material sourcing areas**

The manufacturing facility is located at Rajim (Chhattisgarh). The firm benefits from proximity to raw material source as Rajim is one of the major rice producing regions in India. The firm procures raw material (paddy) from the local mandis as well as from farmers in Rajim.

- **Efficiently managed working capital operations**

RFI has efficiently managed its working capital as reflected in Gross Current Assets of 94 days in FY2018 (Provisional) as against 88 days in FY2017 and 95 days in FY2016. This is mainly on account of inventory of 78 days in FY2018 (Provisional) as against 72 days in FY2017. The firm has debtors of 9 days in FY2018 (Provisional) as against 16 days in FY2017. Acuité believes that the firm's ability to manage its working capital efficiently will support its credit profile.

Weaknesses

- **Average financial risk profile**

RFI's financial risk profile is average marked by networth of Rs.3.94 crore as on 31 March, 2018 (Provisional) as against Rs.3.61 crore as on 31 March, 2017. The gearing stood at 2.67 times as on 31 March, 2018 (Provisional) as against 2.35 times as on 31 March, 2017. The total debt of Rs.10.54 crore as on 31 March, 2018 (Provisional) comprises Rs.1.51 crore of term loans, Rs.0.37 crore of unsecured loans and Rs.8.66 crore of working capital facility. The firm has moderate Interest Coverage Ratio (ICR) of 2.06 times for FY2018 (Provisional) as against 1.78 times for FY2017.

- **Moderate scale of operations and decline in profitability**

The firm reported revenues of Rs.43.54 crore in FY2018 (Provisional) as against Rs.31.84 crore in FY2017 and Rs.26.26 crore in FY2016. This was mainly due to completed capital expenditure resulting in increased capacity. However, the firm's profitability has declined over the years with Earnings before interest, tax, depreciation and amortization (EBITDA) margins of 3.59 percent in FY2018 (Provisional) as

against 3.91 percent in FY2017 and 4.72 in FY2016. This is mainly due to increased cost of raw material as a percentage of sales. Profit after tax (PAT) margins are thin and has declined to 0.35 percent in FY2018 (Provisional) from 1.08 percent in FY2017. This is mainly due to capitalisation of assets resulting in higher depreciation.

- **Exposure to agro climatic risks and competitive industry**

The firm is engaged in the processing of agro based products thereby the operational performance is susceptible to agro climatic risks. The agro processing industry is highly competitive and fragmented with several organised and unorganised players. The intense competition and low value addition in the agro processing industry results in low operating margins.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RFI.

Outlook: Stable

Acuité believes that RFI's outlook will remain 'Stable' over medium term the medium term on the back of established track record and proprietor's extensive industry experience. The outlook may be revised to 'Positive' in case the RFI achieves higher than expected growth in revenues and profitability leading to improvement in the overall financial risk profile. Conversely, the outlook may be revised to 'Negative' if in case of elongation in working capital cycle or further decline in profitability.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	43.54	31.84	26.26
EBITDA	Rs. Cr.	1.56	1.25	1.24
PAT	Rs. Cr.	0.15	0.34	0.28
EBITDA Margin	(%)	3.59	3.91	4.72
PAT Margin	(%)	0.35	1.08	1.08
ROCE	(%)	6.96	9.93	10.82
Total Debt/Tangible Net Worth	Times	2.67	2.35	1.41
PBDIT/Interest	Times	2.06	1.78	1.75
Total Debt/PBDIT	Times	6.61	6.63	4.35
Gross Current Assets (Days)	Days	91	88	95

Status of non-cooperation with previous CRA (if applicable): None

Any other information- Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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 (Upto last three years)

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
04-Mar-2017	Cash Credit	Long Term	7.00	ACUITE B+ /Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B+ /Stable (Assigned)
	Bank guarantee	Short Term	2.00	ACUITE A4 (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	7.00	ACUITE B+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.78	ACUITE B+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE B+/ Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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