

Press Release

Raigarh Foods And Hotel Business Private Limited

July 20, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (read as SMERA B plus) and short term rating of '**SMERA A4** (read as SMERA A four) on the Rs. 20.00 crore bank facilities of Raigarh Foods And Hotel Business Private Limited. The outlook is '**Stable**'.

Incorporated in 1996 by Mr. Subhash Agarwal, Raigarh Foods and Hotel Business Private Limited (Raigarh Foods) is a Chhattisgarh-based company engaged in the processing of raw and par-boiled rice. The company has an installed capacity of 8 tonnes/per hour and sells rice under the 'Rajashree' brand name.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

The Director, Mr Subhash Agarwal, has over two decades of experience in the aforementioned line of business.

- Proximity to raw material sources**

The manufacturing facilities are located at Raigarh, Chattisgarh. Chattisgarh is one of the top 10 rice producing states in India. The major raw material (paddy) is procured directly from local farmers.

Weaknesses

- Debt funded capex plan**

Raigarh Foods plans to undertake capex of Rs 6.75 crore in FY2017-18 to increase its installed capacity to 14 tonnes/hour. The project is expected to be funded by a term loan of Rs 5 crore and the balance from promoter's fund. The project is scheduled to be completed by FY2017-18 and operations are likely to commence in FY2018-19. The management, as a result is expecting a rise in operating income by 35-40 per cent in the medium term. SMERA believes that the increase in debt is likely to deteriorate the gearing and coverage indicators in the near term. Besides, timely completion of the project will be the key rating sensitivity.

- Moderate financial risk profile**

The average financial risk profile is marked by moderate debt protection metrics, average gearing and modest net worth. The gearing increased to 1.75 times in FY2017 (Provisional) from 1.15 times in FY2016, mainly on account of increase in short term borrowings. The gearing levels are expected to rise in the medium term on account of the term loan of Rs 5.00 crore which will be availed by the company in FY2017-18 for setting up a new rice processing unit. However, despite the rise, the gearing levels are expected to remain at moderate levels since the company plans to infuse equity of Rs 1.75 crore to support the project. The Interest coverage ratio and the Debt service coverage ratio

stood at 1.50 times and 1.40 times respectively in FY2017 (Provisional) as compared to 1.52 times and 1.45 times in FY2016 respectively. The net worth stood modest at Rs.7.40 crore in FY2017 (Provisional) as against Rs 7.28 crore in FY2016. The NCA/TD stood at 0.05 times in FY2017 (Provisional) compared to 0.07 times in FY2016.

• **Working capital intensive operations**

The working capital management is moderate marked by gross current asset days of 108 in FY2017 (provisional) as against 79 days in FY2016. This is mainly on account of seasonal nature of business - the company needs to procure inventory during the Kharif season (Nov-March). The inventory days stood at 107 days in FY2017 (Provisional) as against 62 days in FY2016. The company on an average utilises 100 per cent of its cash credit limit of Rs 11.50 crore.

• **Agro climatic risks**

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.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of Raigarh Foods.

Outlook: Stable

SMERA believes that Raigarh Foods will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected revenue growth while sustaining improvement in profit margins, working capital management and ensuring timely completion of the project. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected revenue leading to fall in margins or deterioration in the financial risk profile. Significant delays in the completion of the project may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2017 (Provisional), Raigarh Foods and Hotel Business Private Limited (Raigarh Foods) reported Profit after Tax (PAT) of Rs.0.16 crore on total operating income of Rs.57.94 crore compared with PAT of Rs 0.16 crore on total operating income of Rs.53.14 crore in FY2016.

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

None

Any other information

None

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>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of	Coupon	Maturity	Size of the Issue	Ratings/Outlook
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	Issuance	Rate	Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.50	SMERA B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA B+ / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4

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ABOUT SMERA

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