

Press Release

Kothari Fermentation And Biochem Limited

September 23, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 30.00 crore bank facilities of Kothari Fermentation And Biochem Limited. The outlook is '**Stable**'.

The Uttar Pradesh-based Kothari Fermentation & Biochem Limited (KFBL) incorporated in 1990 is engaged in the production of yeast and its derivatives (fresh yeast, active dried yeast etc). Led by Mr. Pramod Kothari, Managing Director, the company caters to various industries including food products and pharmaceuticals. The major raw material used is molasses, procured from local farmers and UP State Sugar Corporation. The company has an installed capacity of 25000 metric tons per annum and sells its products under the Sunrise brand name.

Key Rating Drivers

Strengths

• Experienced promoters and long track record of operations

KFBL, incorporated in 1990 has long track of operations. The promoters, Mr. Moti Lal Kothari (Chairman) and his son, Mr. Pramod Kothari (Managing Director) have experience of over two decades in the industry which has helped develop healthy relations with customers.

• Healthy financial risk profile

The moderate financial risk profile is marked by healthy networth of Rs.33.91 crore as on 31 March, 2017 compared to Rs.30.76 crore a year earlier. Further, the gearing stands low at 0.54 times as on FY2017 and FY2016. The total debt of Rs.18.44 crore in FY2016-17 includes term loan of Rs. 9.96 crore, unsecured loan of Rs.1.23 crore and working capital limit of ~ Rs 7.25 crore. The interest coverage of the company stands healthy at 5.82 times in FY2017 as against 4.33 times in the previous year. The net cash accrual by total debt stands at 0.31 times in FY2017 as compared to 0.23 times in FY2016. The debt service coverage ratio (DSCR) stands healthy at 2.52 times in FY2017 as compared to 2.36 times in FY2016.

• Efficient working capital cycle

The working capital cycle stands comfortable marked by GCA days of 79 in FY2017 as against 73 in FY2016. The comfortable GCA days are on account of better churning of inventory (34 days) and realisation from debtors (24 days).

Weaknesses

• Modest scale of operations

KFBL has moderate scale of operations marked by operating income of Rs.79.10 crore in FY2017 compared to Rs.77.23 crore in FY2016. The modest scale is mainly on account of low value addition.

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

The key raw material - molasses is a seasonal product. As a result, KFBL's margins are susceptible to fluctuations in the prices of sugarcane.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company.

Outlook: Stable

SMERA believes that the company will maintain a stable outlook in the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue, profitability or if it takes on further debt-funded capital expenditure that weakens the financial risk profile.

About the Rated Entity - Key Financials

For FY2017, the company reported profit after tax (PAT) of Rs.3.15 crore on operating income of Rs.79.10 crore, compared to PAT of Rs.1.89 crore on operating income of Rs.77.23 crore in FY2016. The net worth stood at Rs.33.91 crore as on 31 March, 2017 as against Rs.30.76 crore a year earlier.

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 Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	12.39	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.85	SMERA A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.26	SMERA BBB- / Stable

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