

Press Release

Kothari Fermentation And Biochem Limited

September 07, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 35.00 crore bank facilities of Kothari Fermentation And Biochem Limited (KFBL). The outlook is '**Stable**'.

The upgrade in ratings is driven by the improvement in profitability margins resulting in better liquidity leading to healthy cash accruals against its debt repayments. The rating also favorably factors in the consistent rise in revenues of the company during FY2018 and FY2017. KFBL registered a top line of Rs. 87.70 crore in FY2018 as compare to Rs.79.10 crore in FY2017. Further, the upgrade reflects consistent improvement in the financial risk profile during the period under review (FY2016- FY2018).

Incorporated in 1990, Kothari Fermentation & Biochem Limited (KFBL) is an Uttar Pradesh based company promoted by Mr. Moti Lal Kothari (Chairman). Currently the operations are managed by his son, Mr. Pramod Kothari (Managing Director). The company is engaged in the manufacturing of yeast and its derivatives (Fresh Yeast, Active Dried Yeast, Instant Dried Yeast, Live Yeast & Yeast Extract Powder) used in food products, alcohol fermentation and pharmaceuticals industry with an installed capacity of 25000 metric ton per annum (MTPA). The company sells its product under the brand 'Sunrise'.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Kothari Fermentation and Biochem Limited to arrive at the rating.

Key Rating Drivers:

Strengths:

Experienced management & Long track of operation:

Incorporated in 1990, KFBL has a long track of 28 years in the food processing industry. The promoter, Mr. Moti Lal Kothari (Chairman) and his son, Mr. Pramod Kothari (Managing Director) have an experience of over two decades. Such a long experience has helped the company to establish itself among the top players in the yeast manufacturing business.

Healthy financial risk profile:

The financial risk profile of the company is marked by modest net worth, healthy gearing and healthy debt protection metrics. KFBL has a modest net worth of Rs.39.27 crore in FY2018 as against Rs.33.91 crore in FY2017. The gearing stood healthy at 0.41 times in FY2018 as against 0.54 times in FY2017. The total debt of Rs.16.18 crore consists of term loans of Rs.10.87 crore, cash credit facility of Rs.4.45 crore and unsecured loan of Rs.0.86 crore in FY2018. The debt protection metrics stood healthy with Interest Coverage Ratio (ICR) of 7.24 times in FY2018 as against 5.82 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 3.06 times in FY2018 as against 2.52 times in FY2017. Net Cash Accruals/ Total Debt (NCA/TD) stood at 0.52 times in FY2018 as against 0.31 times in FY2017.

Prudent working capital cycle:

The comfortable working capital cycle of the company is marked by Gross Current Assets (GCA) days of 61 as on 31 March 2018 as against 79 days in the previous year. The GCA days comprises of inventory days of 25 as on 31 March 2018 as against 34 days in the previous year. On an average the company provides credit of ~ 20-25 days to its customers.

Healthy profitability margins:

Acuité notices a consistent improvement in the operating margin of the company which stood at 13.55 percent during FY2018 from 7.80 percent in FY2016. The improvement in the operating margins is due to shift from manual processes to automation leading to better realisation. The PAT margin of the company stood comfortable at 6.12 percent in FY2018 from 2.45 percent in FY2016.

Weaknesses:

Susceptibility of operating margins to volatility in price of key raw material:

The key raw material i.e. molasses which comes from sugar cane is a highly seasonal product. There is a high fluctuation in the prices of sugarcane during peak and non-peak season. Thus, KFBL is exposed to price risk because of volatility in raw material prices.

Outlook: Stable

Acuité believes that the outlook on KFBL will maintain a 'Stable' outlook over the medium term on the back of its strong business and financial risk profile. The outlook maybe revised to 'Positive' in case the company registers consistent growth in revenue and profitability margins while managing its working capital intensity. Conversely, the outlook maybe revised to 'Negative' in case of decline in revenue and profitability or deterioration in the financial risk profile on account of higher than expected working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	87.70	79.10	77.18
EBITDA	Rs. Cr.	11.88	8.81	6.10
PAT	Rs. Cr.	5.36	3.15	1.89
EBITDA Margin	(%)	13.55	11.13	7.89
PAT Margin	(%)	6.12	3.98	2.45
ROCE	(%)	15.69	12.06	9.40
Total Debt/Tangible Net Worth	Times	0.41	0.54	0.54
PBDIT/Interest	Times	7.24	5.82	4.33
Total Debt/PBDIT	Times	1.35	2.07	2.62
Gross Current Assets (Days)	Days	61	79	73

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

Not Applicable

Any other information:

Not Available

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-17.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 Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Sep-2017	Cash Credit	Long Term	7.50	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	12.39	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	1.85	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	8.26	ACUITE BBB-/Stable (Assigned)

*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	5.00	ACUITE BBB / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	22.57	ACUITE BBB /Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Upgraded)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	4.43	ACUITE BBB /Stable (Upgraded)

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About Acuité Ratings & Research:

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