

Press Release

Kothari Fermentation And Biochem Limited

July 14, 2020



Rating Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Assigned and Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 38.00 crore bank facilities of Kothari Fermentation & Biochem Limited. Acuité has also assigned short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 7.00 crore bank facilities. The outlook is '**Stable**'.

Incorporated in 1990, Kothari Fermentation & Biochem Limited (KFBL) is a Delhi 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 KFBL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record and experienced management**

The company has a long track record of over three decades in the food processing industry. The promoter Mr. Moti Lal Kothari has over thirty years of experience in the industry. Currently, the day-to-day operations are handled by his son, Mr. Pramod Kothari, who has an experience of over two decades. Acuité believes that the promoters' extensive experience has helped the company to establish long term relationship with customers and suppliers.

- **Comfortable financial risk profile**

The company's financial risk profile is marked by modest net worth, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.52.18 crore in 6M FY2020 as against Rs. 41.87 crore in 6M FY2019 due to accretion of profits to reserves. The gearing stood low at 0.45 times as on Sep, 2019 similar to last year. The total debt of Rs. 23.70 crore consists mainly of a term loan of Rs.19.02 crore and short term borrowings of Rs.4.69 crore. Moreover, the debt protection metrics is marked by interest coverage ratio (ICR) and debt service coverage ratio (DSCR) of 8.95 times and 7.24 times respectively in 6M FY2020 as against 7.09 times and 6.03 times respectively in 6M FY2019. Net Cash Accruals/ Total Debt (NCA/ TD) stood at 0.26 times in 6M FY2020 as against 0.24 times in 6M FY2019. Acuité believes the financial risk profile of the company to be sustained at comfortable levels backed by healthy net cash accruals.

- **Healthy operating margins and profitability**

The company's operating margins remain at healthy levels, though it has decreased to 15.58 per cent in 9M FY2020 as compared to 18.01 per cent in 9MFY 2019. The decline in operating margin is due to an increase in the prices of their key raw material i.e, molasses. Cost of RM stood at 31.89 percent of revenues

in 9M FY2020 as compared to 29.49 percent of revenues in 9MFY 2019. However, PAT margin stood healthy at 9.74 percent in 6MFY2020 as compared to 6.04 percent in 6MFY2019 due to increase in non-operating income. Acuité believes that the company's ability to sustain its profitability going forward will remain a key rating sensitivity factor.

Weaknesses

- **Modest scale of operations**

The company has been operating at modest scale of operations as the revenues stood at Rs 71.46 crore for 9M FY2020 as compared to revenues of Rs. 68.85 crore for 9MFY 2019, thereby registering a y-o-y growth of 3.8 per cent. The marginal growth in top line is on account of improved realisation for yeasts. Moreover, the company's revenues are expected to not get affected going forward due to Covid pandemic on account of yeast being a supplement to essential food products and medicines.

- **Susceptibility of operating margins to volatility in price of key raw material**

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

Rating Sensitivity

- Growth in scale of operations while maintaining operating profitability
- Sustenance of existing financial risk profile with healthy capital structure

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by moderate net cash accruals of Rs.6.24 crore in 6M FY2020 as against long term debt repayment of Rs.1.80 crore over the same period. The company's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 166 days in 6MFY2020 as against 128 days in 6MFY2019. The current ratio stood at 0.94 times as on Sep 30, 2019 and the fund based limit remains utilised at 90 percent over the twelve months ended March,2020. The company maintains unencumbered cash and bank balances of Rs.0.90 crore as on Sep 30, 2019. The company has not availed moratorium on the term loan and Covid loan. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term in the absence of any significant debt-funded capex.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on the back of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue and profitability margins leading to a substantial increase in cash accruals. Conversely, the outlook maybe revised to 'Negative' in case of a 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	96.21	87.70
PAT	Rs. Cr.	8.71	5.36
PAT Margin	(%)	9.05	6.12
Total Debt/Tangible Net Worth	Times	0.48	0.41

PBDIT/Interest	Times	10.53	7.24
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Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Oct-2019	Cash Credit	Long Term	INR 5	ACUITE BBB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	INR 3	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	INR 1.43	ACUITE BBB / Stable (Reaffirmed)
	Term Loan	Long Term	INR 25.57	ACUITE BBB / Stable (Reaffirmed)
07-Sep-2018	Proposed Bank Facility	Long Term	INR 4.43	ACUITE BBB / Stable (Upgraded)
	Cash Credit	Long Term	INR 5	ACUITE BBB / Stable (Upgraded)
	Term Loan	Long Term	INR 22.57	ACUITE BBB / Stable (Upgraded)
	Bank Guarantee	Short Term	INR 3	ACUITE A3+ (Upgraded)
23-Sep-2017	Cash Credit	Long Term	INR 7.5	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 12.39	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	INR 1.85	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	INR 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	13.00	ACUITE BBB / Stable (Reaffirmed)

Term loans	Not Available	Not Applicable	Not Available	20.45	ACUITE BBB / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.55	ACUITE BBB / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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