

Press Release

Bholenath Foods Limited

March 26, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Short Term Rating	ACUITE BBB /Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 40.00 Crore bank facilities of Bholenath Foods Limited (BFL). The outlook is '**Stable**'.

BFL was established as a private limited company in June 1997 subsequently, the constitution of the company was changed from private limited to public limited in February 2017. The company was initially engaged in the trading of spices and grains in Punjab and is promoted by Mr. Ashok Kumar (Managing Director) and his four brothers, Mr. Vijay Kumar Kapoor, Mr. Pradeep Kumar Kapoor, Mr. Rakesh Kumar Kapoor and Mr. Gulshan Kapoor. Since 2000, the company is engaged in rice milling. BFL has four manufacturing facilities at Khera, Kalan, Narela, and Delhi with total capacity of 9720 metric tons per month. Currently the company is utilizing ~70% of the capacity. The company sells its products under the brand names of 'Eravat', 'Monal' and 'Cheetal Basmati Rice' and 'Delhi Great', the flagship brand. It also trades in sugar, broken rice and rice bran.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The company was initially engaged in trading of spices and grains and later since 2000 the company has been engaged in rice milling, thus having a long track record of operations of almost two decades in rice milling industry. The company is promoted by Mr. Ashok Kumar and his four brothers Mr. Vijay Kumar Kapoor, Mr. Pradeep Kumar Kapoor, Mr. Rakesh Kumar Kapoor and Mr. Gulshan Kapoor look after the day-to-day operations of the company. The promoter have an experience of almost two decades in the rice milling industry. Acuité believes the company will benefit from its experienced management and its presence for over two decades in the aforesaid industry.

- **Healthy financial risk profile**

The company's financial risk profile is healthy, marked by a healthy net worth, low gearing and above average debt protection metrics. The net worth is healthy and stood at Rs.49.70 Crores as on March 31, 2019 as against Rs.46.55 Crores in the previous financial year. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves during the same period.

The leverage levels stood healthy at around 0.73 times as on March 31, 2019. The company's healthy cash accruals to the tune of about Rs.4.42 Crores have supported in minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.73 times and Rs.35.66 Crores as on March 31, 2019. The cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.4.72-5.76 Crores against repayment obligations of Rs.0.15-0.17 Crore each year for the same period. As a result, the gearing is expected to be moderate around 0.70 times as on March 31, 2020 on back of healthy accretion to reserves. The interest coverage ratio for FY 2019 were healthy at 2.96 times, respectively.

Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves.

- **Moderate working capital intensive nature of operations**

Operations of the company are moderately working capital intensive marked by Gross Current Assets (GCA) of 110 days in FY2019 as against 98 days in the previous year. This is mainly on the account of inventory holding period of 67 days in FY2019 as against 59 days in the previous year and debtors' collection period of 37 days in FY2019 as against 38 days in the previous year. Further, the current ratio of the company stands moderate at 1.72 times as on 31 March, 2019.

Weaknesses

- **Commodity price fluctuation**

Paddy, the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon season. Environmental factors, soil fertility and seasonal monsoon control the output of the paddy cultivation affecting the demand supply dynamics of basmati rice year-on-year resulting in price flux. Furthermore, paddy price is largely dependent on several external factors like domestic demand outlook, international trade regulations and domestic productions. This exposes the company to the risk related with fluctuation in raw material price.

- **Competitive and fragmented nature of rice milling business**

Rice is a highly competitive industry due to low entry barriers, which results in intense competition from both the organized as well as unorganized players in the industry. The company is involved in the milling of rice and thus faces competition from large numbers of players into the similar business of rice milling especially given the geographical placement of the company.

Outlook: Stable

Acuité believes that the company will maintain a stable outlook on the back of the management's extensive experience in the rice milling business and long track record of operations. The outlook may be revised to 'Positive' in case of sustained increase in revenues and improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or elongation of profitability and financial risk profile.

Material Covenant

None

Rating sensitivity

- Any deterioration in financial risk profile
- Deterioration in working capital leading to liquidity pressure

Liquidity position: Adequate

BFL has adequate liquidity marked by adequate net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.4.42 Crore for FY2019 against no significant debt repayment obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.4.72 Crore to Rs.5.76 Crore during FY2020-22 against repayment obligations of Rs.0.15-0.17 Crore each year for the same period. The company's working capital operations are efficient, marked by GCA of 110 days for FY2019. The company has low working capital utilization of around 48 percent for the period under study of six months ending on January, 2020. The company maintained cash and bank balances of Rs.2.16 Crore as on 31 March, 2019. The current ratio stood healthy at 1.72 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	306.62	302.36
PAT	Rs. Cr.	3.15	2.87
PAT Margin	(%)	1.03	0.95
Total Debt/Tangible Net Worth	Times	0.73	0.70
PBDIT/Interest	Times	2.96	2.95

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
18-January-2019	Cash Credit	Long Term	28.00	ACUITE BBB/Stable (Upgraded)
	Cash Credit	Long Term	5.50	ACUITE BBB/Stable (Assigned)
	Proposed Cash Credit	Long Term	6.50	ACUITE BBB/Stable (Upgraded)
03-November-2017	Cash Credit	Long Term	28.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)
13-October-2017	Cash Credit	Long Term	28.00	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	28.00	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BBB/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BBB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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