

Press Release

Bholenath Foods Limited

July 22, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB Negative Assigned	-
Bank Loan Ratings	50.00	ACUITE BBB Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	8.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	70.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 50.00 Crore bank facilities of Bholenath Foods Limited (BFL). The outlook has been revised from '**Stable**' to '**Negative**'.

Acuite has assigned 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. 20.00 Crore bank facilities of Bholenath Foods Limited (BFL). The outlook is '**Negative**'.

Reason for revision in Outlook

The outlook has been revised because the operations of the company have become working capital intensive. Company's GCA days have increased from 96 in FY 2020 (Audited) to 130 in FY 2021 (Audited) and further increased to 184 in FY 2022 (Provisional). The increase in GCA days was a result of increment in Inventory holding and Debtor realization period. This has led to increased reliance on working capital borrowings which resulted into moderation of key financial risk ratios.

However the rating has been reaffirmed on account of established track record of operations, support of experienced management and strong net worth which has to some extent mitigated the deterioration in financial risk profile of the company.

About the Company

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. 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 financial risk profile of the company is healthy marked by strong net worth, comfortable gearing and coverage indicators. Total Tangible Net worth of the company stood at Rs. 57.75 Cr as on 31st March 2022 as against Rs. 54.91 Cr as on 31st March 2021. Debt to Equity ratio however has moderated to 1.46 times in FY 2022 as against 0.88 times in FY 2021 due to increase in short term borrowings. Total Debt of Rs. 84.60 Cr in FY 2022 consists of Rs. 9.07 Cr of long term debt, Rs. 72.57 Cr of working capital borrowings and Rs. 2.97 Cr of CPLTD. Coverage ratios i.e. ICR and DSCR stood comfortable at 2.78 times and 2.47 times respectively in FY 2022 and saw a marginal improvement from 2.74 times (ICR) and 2.45 times (DSCR) as on FY 2021. However going forward the team expects the DSCR ratio to moderate on account of increase in maturing debt repayment obligation in the near term. Debt to EBITDA ratio has moderated from 5.38 times in FY 2021 to 8.77 times in FY 2022 due to significant increase in working capital borrowings. As a result, NCA/TD has moderated to 0.06 times in FY 2022 from 0.10 times in FY 2021 and FY 2020.

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, sound fertility of soil 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.

Stretched Working Capital Cycle

The company's operations are working capital intensive marked by GCA days of 184 in FY 2022 (Provisional). The increase in GCA days is because of increment in debtor and inventory period. Inventory holding period has increased from 48 days in FY 2020 to 73 days in FY 2021 and further increased to 87 days in FY 2022. The increase in inventory was on account of increase in stock of paddy of basmati for which stock was increased due to shortage in the last season. The increase in FY 2021 was on account of disruptions of covid pandemic. Debtor

realization period saw a sharp increase from 42 days in FY 2021 to 90 days in FY 2022. One reason for high realization period was the shortage of shipping containers that the company faced because of which receivables from its major export destination Canada increased since shipping period became higher and there were delays in payment from customers also. In the coming times debtor period is expected to moderate since the company has been registered with customs authority in China and the shipping span and receivable period for China is expected to be shorter. Also in the last two months of FY 2022 the monthly sales of the company rose to Rs. 84.74 Cr as against 52.32 Cr a year earlier wherein the exports sales has grown from Rs. 11.72 Cr in FY 2021 to Rs. 32.70 Cr in FY 2022. Due to stocking up of paddy of basmati creditor days increased to 41 in FY 2022 as against 21 in FY 2021. As a result the average bank utilization levels between October 2021 and April 2022 stood at 92.19%.

Rating Sensitivities

- Working capital management.
- Liquidity profile.

Material covenants

None.

Liquidity Position

Adequate

The liquidity position of the company is a little stretched. As of FY 2022 since the company has generated Net cash accruals of Rs. 5.09 Cr against CPLTD of Rs. 2.97 Cr. The investments of Rs. 2.03 Cr are in equity instruments of subsidiary companies and the cash and bank balance stood at Rs. 0.22 Cr while average bank limit utilization stood at 92.19% between October 2021 and April 2022. Going forward the company is expected to generate Net cash accrual of Rs. 6.03 Cr and Rs. 6.37 Cr against CPLTD of Rs. 4.05 and Rs. 3.65 Cr in FY 2023 and FY 2024 respectively.

Outlook: Negative

Acuité believes that the company will continue to benefit in the medium term due to 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 higher than expected growth in revenues and significant improvement in its working capital cycle. Conversely, the outlook may be revised to 'Stable' in case of sustained improvement in revenues and net cash accruals while bringing working capital cycle back to normal levels.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	316.66	281.07
PAT	Rs. Cr.	2.84	2.48
PAT Margin	(%)	0.90	0.88
Total Debt/Tangible Net Worth	Times	1.46	0.88
PBDIT/Interest	Times	2.78	2.74

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria->

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Jun 2021	Cash Credit	Long Term	43.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BBB Stable (Reaffirmed)
26 Mar 2020	Proposed Cash Credit	Long Term	6.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB Stable (Reaffirmed)
18 Jan 2019	Proposed Cash Credit	Long Term	6.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	28.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	5.50	ACUITE BBB Stable (Assigned)
03 Nov 2017	Cash Credit	Long Term	28.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Assigned)
13 Oct 2017	Cash Credit	Long Term	28.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Derivative Exposure	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE BBB Negative Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	6.40	ACUITE A3+ Assigned
Yes Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.40	ACUITE BBB Negative Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	10.41	ACUITE BBB Negative Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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