

Press Release

KHANDELWAL PULSE MILL

November 29, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.60 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as SMERA B plus) on the Rs. 8.60 crore bank facilities of KHANDELWAL PULSE MILL. The outlook is '**Stable**'.

Khandelwal Pulse Mill (KPM), a partnership firm established in 1979 was converted to a proprietorship firm in 2000. The firm is engaged in the processing, cleaning, grading of pulses such as Chana Dal, Masoor Dal among others at its processing facility at Indore, Madhya Pradesh. The firm has an installed capacity of 10,000 metric tons per annum. The day-to-day operations are led by Mr. Ajay Kumar Khandelwal and Mr. Rahul Garg. The firm caters to the domestic market.

Key Rating Drivers

Strengths

- **Established operational track record, experienced management**

KPM, established in 1979 by Mr. Ajay Kumar Khandelwal sells its products under the Olympic Masur, KPM Gold Besan brand names. SMERA believes that KPM will continue to benefit from its established position in the market and experienced management.

- **Healthy revenue growth**

The firm registered CAGR of 32 per cent in the last three years ended FY2017. The firm reported healthy revenue growth of more than 70 percent over the previous year. The operating income stood at Rs. 33.42 crore for FY2017 as against Rs.19.45 crore for FY2016. The significant growth in revenue is due to stabilisation of operations, increase in capacity utilisation and increase in orders from customers. The firm registered revenue of Rs. 14.65 crore from April, 2017 to Sep, 2017.

Weaknesses

- **Capital withdrawal risk**

Being a proprietorship concern, KPM is exposed to the risk of capital withdrawal. However, no such instances have been observed during the period under study.

- **Average financial risk profile**

The average financial risk profile is marked by tangible networth of Rs.3.25 crore as on 31 March, 2017 as against Rs.2.53 crore as on 31 March, 2016. The networth includes interest bearing unsecured loan of Rs.1.65 crore as on 31 March, 2017 subordinated to bank debt. The gearing stood at 1.83 times as on 31 March, 2017 as against 1.86 times as on 31 March, 2016. The total debt of Rs.5.95 crore as on 31 March, 2017 constitutes working capital funding of Rs.5.95 crore. KPM has a modest interest coverage ratio of 1.21 times in FY2016-17 as against 1.16 times in FY2015-16. Going forward, the gearing is expected to increase in the medium term on account of increase in working capital limits in FY2017-18 and addition of a term loan.

- **Working capital intensive operations**

KPM's operations are working capital intensive as reflected in the Gross current assets (GCA) of 118 days in

FY2017 as against 142 in the previous year. Further, as informed by the banker, the utilisation of working capital limit has been around 95 per cent in the last six months.

- **Highly fragmented and competitive industry leading to low profitability**

The agro processing industry is highly fragmented and competitive with several organised and unorganised players. The intense competition and low value addition resulted in low operating margin of 2.48 percent in FY2017 as against 3.93 percent in the previous year. The PAT margins stood at 0.26 percent for FY2017 as against 0.36 percent for FY2016 followed by low EBITDA margin.

- **Agro climatic risks**

Since the firm is engaged in the processing of pulses, an agri commodity, it is highly dependent on agro climatic conditions. The operations and profitability are hence, exposed to agro climatic risks.

Analytical Approach

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

Outlook: Stable

SMERA believes that the outlook on KPM's facilities will remain stable over the medium term on account of the promoter's experience in the agricultural sector. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in cash accruals or deterioration of its financial risk profile due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17, KPM reported Profit after Tax (PAT) of Rs.0.09 crore on total operating income of Rs.33.72 crore compared with PAT of Rs 0.07 crore on total operating income of Rs.19.45 crore in FY2015-16. The tangible net worth stood at Rs.3.25 crore as on 31 March, 2017 as against Rs.1.65 crore in the previous year.

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
Term loans	Not Applicable	Not Applicable	Not Applicable	0.60	SMERA B+ / Stable
Cash Credit	Not Applicable	Not	Not	8.00	SMERA B+ / Stable

	Applicable	Applicable	
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ABOUT SMERA

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