

Press Release

KHANDELWAL PULSE MILL

February 26, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 8.60 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B-**' (**read as ACUITE B minus**) from **ACUITE B+** (**read as ACUITE B plus**) to the Rs. 8.60 crore bank facilities of KHANDELWAL PULSE MILL (KPM). The outlook is '**Stable**'.

Rating downgrade reflects significant deterioration in scale of operations and profitability. The revenues have declined significantly to Rs.24.64 crore from Rs.33.72 crore mainly on account of fluctuations in prices of agro commodities. Company has registered significant losses in FY2018 marked by net losses of Rs.2.86 crore as against Profit After Tax (PAT) of Rs.0.09 crores in FY2017. Further, operating margins had also declined significantly to negative 6.96 per cent in FY2018 from 2.48 per cent in FY2017. However, the rating is supported by experienced management.

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. The firm sells its products under the brand names 'Olympic Masur' and 'KPM Gold Besan'.

Analytical Approach

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

Key Rating Drivers

Strengths

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

KPM was established in 1979 by Mr. Ajay Kumar Khandelwal who has experience of more than two decades in the agriculture industry. Acuité believes that KPM will continue to benefit from its established position in the market and experienced management.

Weaknesses

- **Decline in revenue growth and profitability**

The operating income declined to Rs.24.64 crore for FY2018 from Rs.33.72 crore for FY2017. The decline in revenue is due to fluctuation in prices of raw materials. The operating margins declined to negative 6.96 per cent in FY2018 from 2.48 per cent in FY2017. Further, the firm registered net loss of Rs.2.86 crore as against profit after tax (PAT) of Rs.0.09 crore.

- **Average financial risk profile**

The average financial risk profile is marked by low tangible net worth of Rs.3.86 crore as on 31 March, 2018 as against Rs.3.25 crore as on 31 March, 2017. The net worth includes interest bearing unsecured loan of Rs.1.59 crore as on 31 March, 2018 subordinated to bank debt. The gearing (debt to equity) deteriorated to 2.18 times as on 31 March, 2018 from 1.83 times as on 31 March, 2017. The total debt of Rs.8.42 crore as on 31 March, 2018 constitutes working capital funding of Rs.7.88 crore and term loan of Rs.0.55 crore. KPM has a negative Interest Coverage Ratio (ICR) of 1.79 times in FY2018 as against 1.21 times in FY2017. Debt to EBITDA stood negative at 4.91 times for FY2018 as against 7.12 times for FY2017.

- **Working capital intensive operations**

KPM's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 112 days in FY2018 as against 118 in the previous year. Inventory stood at 87 days in FY2018 as against 98 days in FY2017. Debtors stood at 16 days in FY2018 as against 20 days in FY2017. Further, the bank limit utilisation of working capital limit has been around 95 per cent in the last six months ending January 2019.

- **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.

- **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 declined to negative 6.96 per cent in FY2018 from 2.48 per cent in FY2017. 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.

Liquidity Position

KPM has stretched liquidity marked by negative net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.10 to (2.67) crore during the last three years through 2016-18. The firm's operations are working capital intensive as marked by high gross current asset (GCA) days of 112 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the firm remains utilized at 95 percent during the last 6 months period ended January, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.05 crore as on March 31, 2018. The current ratio of the group stands low at 0.84 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of low cash accrual.

Outlook: Stable

Acuité 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.64	33.72	19.45
EBITDA	Rs. Cr.	-1.72	0.84	0.77
PAT	Rs. Cr.	-2.86	0.09	0.07
EBITDA Margin	(%)	-6.96	2.48	3.93
PAT Margin	(%)	-11.59	0.26	0.36
ROCE	(%)	-17.66	9.49	10.70
Total Debt/Tangible Net Worth	Times	2.18	1.83	1.86
PBDIT/Interest	Times	-1.79	1.21	1.16
Total Debt/PBDIT	Times	-4.91	7.12	6.15
Gross Current Assets (Days)	Days	112	118	142

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

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-4.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
06-Dec-2017	Term Loan	Long Term	0.60	ACUITE B+ / Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE B+ / 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
Term loans	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE B- / Stable (Downgraded from ACUITE B+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE B- / Stable (Downgraded from ACUITE B+/Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 02249294044 Saurabh.Rane@acuiteratings.in	

About Acuité Ratings & Research:

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