

Press Release

Kumud Rice And Dal Mill

April 22, 2019



Rating reaffirmed and assigned

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and assigned the short term rating of '**ACUITE A4+**' (**read as ACUITE A4 plus**) to the Rs.13.00 crore bank facilities of Kumud Rice and Dal Mill (KRDM). The outlook is '**Stable**'.

KRDM was established in 1994 at Hardoi(Uttar Pradesh). The firm is engaged in manufacturing and supplying of wide assortment of Indian Rice that includes SortexSona masoori steamed rice, Non-Basmati rice and Samba masoori rice.

The firm operates four plants in Hardoi and exports to countries such as Doha, Dubai, Oman, Nepal and Bangladesh to name few. The firm has installed capacity of 8 tonnes/hour and mill works for 22 hours/day in two shifts.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the KRDM to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record**

KRDM, a firm based out of Hardoi (Uttar Pradesh) was formed by three partners Mr. TrilokiNath Gupta, Mr. Tushar Gupta and Mr. Sanjeev Gupta in 1994. All partners are in business since inception and have more than two decades of experience in same business.

- **Average financial risk profile**

The financial risk profile of the firm is average marked by low networth, moderate gearing and comfortable debt protection metrics. The net worth stood at Rs.5.13 crore as on 31 March, 2018 compared to Rs.4.96 crore as on 31 March, 2017. The gearing stood at 2.77 times as on 31 March, 2018 as against 2.11 times as on 31 March, 2017. The interest coverage ratio (ICR) stood at 1.45 times in FY2018 as against 1.55 times in FY2017. The total outside liabilities to tangible networth (TOL/TNW) stood at 3 times in FY2018 and 2.13 times in FY2017.

Weaknesses

- **Low profitability**

EBITDA margin of the firm stood low at 3.55 percent in FY2018 as compared to 3.41 percent in FY2017. KRDM reported very low profit of Rs.0.03 crore in FY2018 with PAT Margin of 0.06 percent in FY2018. Profitability margins remain quite low due to fluctuation in raw material prices.

- **Working capital intensive nature of operations**

The operations are working capital intensive marked by high gross current assets (GCA) days of 135 in FY2018 and 119 in FY2017. The inventory days were high at 78 in FY2018 and 40 in FY2017. Working capital limits were fully utilised during the entire year.

• **Volatility in price and agro-climatic risk associated with paddy**

The price of paddy is driven by interaction of supply and demand for rice across the country. A bumper harvest can suppress the price significantly and force traders to accept lower prices. On the other hand, erratic rainfall coupled with lack of irrigation facilities in major areas may result in a sharp increase in price of paddy. Volatility in farm harvest prices, thus, is an inherent risk for entities involved affecting their top-line as well as inventory management.

Liquidity Position:

Liquidity of KRDM is below average as evident by net cash accruals and full utilisation of CC limits during the year. KRDM generated cash accruals of Rs.0.33-0.53 crore during the last three years through 2017-18, while the maturing debt obligations were in the range of Rs.0.42-0.50 crore over the same period. The cash accruals are estimated to remain around Rs.0.50-1.04 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.50 crore. The cash credit limit in the firm remained fully utilised during the last 6 months ended March 2019. The firm maintains unencumbered cash and bank balances of Rs.0.10 crore as on March 31, 2018. The current ratio stood at 1.33 times as on March 31, 2018. Acuité believes that the liquidity of the firm will remain below average over the near to medium term because of low net cash accruals and moderate repayment obligations.

Outlook: Stable

Acuité believes that KRDM will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues, improved liquidity position and net cash accruals while maintaining better profit margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the firm's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	47.08	37.57	35.11
EBITDA	Rs. Cr.	1.67	1.28	1.26
PAT	Rs. Cr.	0.03	0.01	0.01
EBITDA Margin	(%)	3.55	3.41	3.59
PAT Margin	(%)	0.06	0.04	0.04
ROCE	(%)	6.78	6.25	7.02
Total Debt/Tangible Net Worth	Times	2.77	2.11	2.81
PBDIT/Interest	Times	1.45	1.55	1.36
Total Debt/PBDIT	Times	8.51	6.96	9.40
Gross Current Assets (Days)	Days	135	119	171

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>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities -<https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.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
30-Jan-2018	Cash credit	Long Term	8.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	1.43	ACUITE BB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	3.57	ACUITE BB- / 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	4.00	ACUITE BB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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