

Press Release

Kumud Rice And Dal Mill

July 16, 2020



Rating Upgraded and Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

The upgrade in the rating is on account of continuous improvement in the operating income and profitability of the firm. The operating income of the firm has increased by around 11.48 percent to Rs.52.49 crore in FY2019 as against to Rs.47.08 crore in FY2018. The operating income is estimated to be around Rs.73.54 crore in FY2020. The operating margin has increased to 4.07 percent in FY2019 as against to 3.55 percent in FY2018. The PAT margin has also increased to 0.98 percent in FY2019 as against 0.52 percent in FY2018.

Established in the year 1994, KRDM is a Hardoi, Uttar Pradesh based partnership firm. The partners of the firm are Mr.Tushar Gupta and Mr.Sanjeev Gupta. The firm is engaged in the business of processing of paddy into a wide assortment of Indian rice that includes Sortex Sona Masoori Rice, Steamed Rice and Samba Masoori Rice. The firm has all its plants located in Hardoi with an installed production capacity of 10tons/hour. The firm exports rice to countries like Qatar, Nepal, Brunei, to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

KRDM was established in the year 1994. Currently, the firm is headed by Mr.Tushar Gupta and Mr.Sanjeev Gupta. The partners of the firm have been engaged in the aforementioned business line for more than two decades. The extensive experience of the partners has helped in establishing healthy relationships with its customers and suppliers. The key customers of the firm include names like Almaadeed Food Stuff, Usha International Private Limited, Gurnil Company, Shivashikan Agro Private Limited amongst others with no major concentration in revenues. The key suppliers include names like Om Sai Traders, Shree Balaji Rice and Dal Mill, etc to name a few. On the back of the stable and repeated orders by the key customers, the revenues have seen a growth of 11.48 percent in FY2019 over FY2018. Further, the revenue of the firm is estimated to be around Rs.73.54crore in FY2020.

Acuité believes that the firm will benefit from the experience of the partners along with a healthy relationship with its customers and suppliers.

• **Improvement in operating performance**

The revenues of the firm have increased by around 11.48 percent to Rs.52.49crore during 2018-19, while its' operating margins has increased from 3.55 percent in FY2018 to 4.07 percent in FY2019. The revenue of the firm is estimated to be around Rs.73.54crore in FY2020. The PAT margin has increased from 0.06 percent in FY2018 to 0.98 percent in FY2019. The EBITDA in absolute term has improved significantly from Rs.1.67crore in FY2018 to Rs.2.14crore in FY2019. This is because the firm is able to procure the raw material comparatively at a lower price as it procures from local markets and farmers. Moreover, the demand of rice has increased from its existing customer. Subsequently, the PAT has also increased from Rs.0.03crore in FY2018 to Rs.0.52crore in FY2019.

Weaknesses

• **Working capital management is intensive in nature**

KRDM's operation is working capital intensive in nature marked by high gross current asset (GCA) days of 146 in FY2019 as against of 135 days in FY2018. The firm has maintained an inventory holding period of around 85 days as on March 31, 2019 as against 78 days as on March 31, 2018. KRDM had extended a credit period of around 52 days as on March 31, 2019 as against 58 days as on March 31, 2018 to its customer. Working capital limits are almost fully utilized for six months ended in March 2020.

Acuite expects the working capital management to remain intensive over the medium term on account of high inventory holding period and extended credit period offered to its customer.

• **Agro climatic risks**

Paddy, the main raw material required for rice processing is a seasonal crop and production of the same is highly dependent on monsoon. Thus, inadequate rainfall may affect the availability of paddy, which in turn, may impact the financial risk profile of the firm.

Rating Sensitivities

- Improvement in the working capital management thereby improving the overall financial risk profile
- Stretch in working capital cycle leading to deterioration in liquidity

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.98crore in FY2019 as against its maturing debt obligations during the same period. The cash accrual of the firm is estimated to remain around Rs.1.40crore to Rs.2.10crore during 2020-21 against repayment obligations of Rs.0.28crore during the same period. The company's working capital operations are intensive, marked by the Gross Current Asset (GCA) days of 146 days for FY2019. The bank limit is fully utilized for six months in ended March, 2020. The firm maintains unencumbered cash and bank balances of Rs.1.29crore as on 31 March 2019. The current ratio stands at 1.21 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate net cash accruals to its debt repayments over the medium term.

Outlook: Stable

Acuite believes that KRDM will maintain a stable outlook over the medium term backed by its experienced partners and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook

may be revised to "Negative", if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins, thereby, impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	52.49	47.08
PAT	Rs. Cr.	0.52	0.03
PAT Margin	(%)	0.98	0.06
Total Debt/Tangible Net Worth	Times	4.90	2.77
PBDIT/Interest	Times	1.72	1.45

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

CRISIL, vide its press release dated March 16, 2020 has denoted the rating of Kumud Rice and Dal Mill as 'CRISIL B+/Stable; ISSUER NOT-COOPERATING;' on account of lack of adequate information required for monitoring of ratings.

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>
- Entities in Trading Sector- <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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22 April, 2019	Cash Credit	Long Term	4.00	ACUITE BB- /Stable (Reaffirmed)
	Term loan	Long Term	1.00	ACUITE BB- /Stable (Reaffirmed)
	Packing credit	Short Term	8.00	ACUITE A4+ (Assigned)
30 January, 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)
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***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 (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	0.85	ACUITE BB/ Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BB/ Stable (Upgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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