

Press Release

Harman Rice Private Limited

January 29, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 30.00 crore bank facilities of Harman Rice Private Limited (HRPL). The outlook is '**Stable**'.

Punjab-based HRPL was incorporated in 2006 by Mr. Dalip Singh and his son Mr. Bhupinder Singh. The company is engaged in the production of both basmati and non-basmati rice with their manufacturing facilities located in Bhatinda, Goniana, with capacity of 6 tons per hour. The company generates its revenues via both exports and domestic sales with exports contributing to roughly 42 percent of the total sales of FY2019. The exports are towards Middle East countries, New Zealand, Canada, US and domestically it sell majorly in Delhi and Gujarat.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and reputed customers**

Since the operations of the company commenced in 2006, HRPL is led by Mr. Dalip Singh and Mr. Bhupinder Singh who are both seasoned players in the agricultural industry having an experience of over three decades. Further the company has a track record of around 15 years which has helped them to establish healthy relations with their customers and suppliers.

Acuité believes that the Company will continue to benefit from its established presence in the aforementioned industry and the promoter's demonstrated ability to scale up the operations across various cycles.

Weaknesses

- **Intensive working capital management**

HRPL has intensive working capital operations marked by high Gross Current Assets (GCA) of 174 days in FY2019 as against 218 days in FY2018. The GCA days are dominated by the high levels of inventory maintained in the business as seen by the inventory holding period of 97 days in FY2019 as against 182 days in FY2018. The inventory is held majorly for seasoning of rice however the company has reduced the same in FY2018. The debtor collection period of the company has stretched to 67 days in FY2019 as against 35 days in FY2018. Further the creditor payback period of the company stood at 60 days in FY2019 as against 81 days in FY2018.

- **Average Financial Risk Profile:**

The financial risk profile of HRPL is average marked by average net worth, moderate gearing and moderate debt protection metrics. The tangible net worth stood at Rs.7.45 crore as on 31 March, 2019 (includes quasi equity of Rs.3.37 crore) as against net worth of Rs.6.55 crore as on 31 March, 2018 (includes quasi equity of Rs.2.55 crore). The company has followed a moderately aggressive financial policy in the

past, the same is reflected through its peak gearing levels of 5.23 times as on March 31, 2018. This has improved to the current level of 3.40 times as on March 31, 2019. The debt of Rs.25.32 crore as on March 31, 2019 consists entirely of working capital borrowings and Total outside Liabilities/Tangible Net Worth (TOL/TNW) showed its peak levels at 6.23 times as on March 31, 2018. The debt protection metrics are average marked by Interest Coverage Ratio (ICR) stood at 1.12 times for FY2019 as against 1.16 times for FY2018. NCA/TD stood moderate at 0.11 times for FY2019. Further, Debt to EBITDA stood at 8.13 times for FY2019.

Rating Sensitivity Factor

- Growth in revenue, while improvement in the profitability margins
- Expected growth in business
- Elongation of working capital operations leading deterioration in financial risk profile and liquidity

Material Covenants

None

Liquidity Position

HRPL has adequate liquidity marked by average net cash accruals against no major maturing debt obligations. The Company generated cash accruals of Rs. 0.32 crores during FY2019 against the maturing debt obligation of Rs. 0.47 crores for the same period. The cash accruals of HRPL are estimated to be around Rs.0.36-0.61 crores against no repayment obligations for the period of 2020-22. The cash credit limit of the Company remains utilized at around 70 per cent during the last six month period ended December 2019. The Company maintains unencumbered cash and bank balances of Rs.0.23 crore as on March 31, 2019. The current ratio of the company stood average at 1.15 times as on March 31, 2019. Acuité believes that the liquidity of HRPL is likely to remain adequate over the medium term on account of average cash accruals against no repayment obligations over the medium term.

Outlook: Stable

Acuité believes that HRPL will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry. The outlook may be revised to 'Positive' in case the Company achieves more than envisaged sales and profitability, while diversifying its revenue profile and sustains its capital structure. Conversely, the outlook may be revised to 'Negative' if there is stretch in its working capital management or larger than-expected debt-funded capex or drop in profitability while penetrating into newer territories leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	96.46	76.34
PAT	Rs. Cr.	0.08	0.24
PAT Margin	(%)	0.08	0.32
Total Debt/Tangible Net Worth	Times	3.40	3.90
PBDIT/Interest	Times	1.12	1.16

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
30-Nov-2018	Cash Credit	Long Term	30.00	ACUITE BB-/Stable (Assigned)
	Warehouse facility	Long Term	50.00	ACUITE BB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	30.00	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	10.80	ACUITE BB-/Stable (Reaffirmed)
Warehouse facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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