

Press Release

Harekrishna Rice Processing and Exports

August 05, 2020



Rating upgraded

Total Bank Facilities Rated	Rs. 15.10 crore
Long Term Rating	ACUITE BB/ Stable (Upgraded from ACUITE BB-)
Short Term Rating	ACUITE A4+ (Reaffirmed)

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 reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.15.10 crores bank facilities of Harekrishna Rice Processing and Exports(HRPE). The outlook is '**Stable**'.

The rating upgrade is on account of the significant improvement in the operational performance of the firm as reflected from the increase in revenues and improvement in working capital management. HRPE has achieved revenues of Rs.64.64 crores in FY2020 (Provisional) as compared to revenues of Rs.28.08 crores a year ago, thereby registering a y-o-y growth of 132 percent. The working capital management of the firm has also improved marked by Gross Current Assets (GCA) of 42 days as on March 31, 2020(Provisional) as compared to 82 days as on March 31, 2019. Acuité believes that the growth in operational performance would continue in the near to medium term as they are engaged in the business of essential items.

Established in January 2015, Harekrishna Rice Processing and Exports (HRPE) is a partnership firm set up by Mr. Anirudha Dash, Mr. Trilochan Dash, Mr. Ashirbad Dash and family. The firm is engaged in milling and processing of non-basmati rice. The firm commenced its manufacturing operations in February 2018 before which it was involved in trading of non-basmati rice. The firm has set up an automated rice milling unit with a processing capacity of 39168 MT per annum in Jajpur, Odisha.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Stabilisation of operations and expected improvement in net cash accruals**

The firm commenced manufacturing operations from February 2018. The capacity utilisation of their milling unit improved from 38 percent in FY2019 to around 68 percent in FY2020. The turnover levels of the firm have also improved in line with their increased capacity utilisation. Acuité believes that the firm would continue to grow over the medium term due to its foray into manufacturing activities and hence generate improved cash accruals.

• **Efficient working capital management**

The working capital management of the firm is efficient marked by low Gross Current Assets (GCA) of 42 days as on March 31, 2020(Provisional) as compared to 82 days as on March 31, 2019. The debtor period stood comfortable at 34 days as on March 31, 2020(Provisional) as compared to 55 days as on March 31, 2019. Further, the inventory holding is also comfortable at 6 days as on March 31, 2020(Provisional) as compared to 21 days as on March 31, 2019. HRPE's plant is located at Jajpur district of Odisha, which is a paddy-growing region in eastern India ensuring easy availability and procurement of raw material. As a result, the reliance on working capital limits is low, leading to low utilisation of its bank limits at an average of 10 per cent over the last six months ended June 2020. Acuité believes that the working capital operations of the firm will remain

comfortable over the medium term as evident from efficient collection mechanism and low inventory levels.

Weaknesses

• Moderate financial risk profile

The firm's moderate financial risk profile is marked by weak net worth, moderate gearing and moderate debt protection metrics. The net worth of the firm improved to Rs.6.12 crores as on March 31, 2020(Provisional) from Rs.3.95 crores as on March 31, 2019 due to retention of profits. The debt of Rs.7.11 crores mainly consists of long term debt of Rs.3.50 crores, unsecured loans from the partners of Rs.1.72 crores and maturing obligation of Rs.1.88 crores as on 31st March 2020(Provisional). The firm has moderate gearing at 1.16 times as on March 31, 2020(Provisional) as against 2.97 times as on March 31, 2019. The moderate debt protection metrics of the firm is marked by Debt Service Coverage Ratio (DSCR) which stood at 1.26 times for both the years ended FY2020. The NCA/TD (Net Cash accruals to total debt) stood at 0.34 times as on March 31, 2020 (provisional). Going forward, the financial risk profile of the firm is expected to remain the same on account of the absence of capital expenditure plans in the medium term.

• Vulnerability to raw material prices

Paddy, the main raw material required for rice is a seasonal crop and the production of the same is highly dependent upon monsoon season. Thus, inadequate rainfall may affect the availability of paddy in adverse weather conditions. Also, the paddy price is largely dependent on minimum support price (MSP) declared by the Government. Thus, the firm is exposed to significant risk related to fluctuation of raw material price.

Rating Sensitivity

- Sustained growth in scale of operations
- Working capital management

Material Covenants

None

Liquidity Profile: Adequate

The firm's liquidity is adequately marked by moderate net cash accruals of Rs.2.42 crores in FY2020 (Provisional) as against maturing obligation of Rs.1.88 crores over the same period. The net cash accruals are expected to be ranging from Rs.2.97 crores to Rs.4.73 crores over the medium term. The current ratio stood at 1.04 times as on March 31, 2020 (Provisional) as compared to 1.01 times as on March 31, 2019. The bank limit remains utilised at 10 percent over six months ended in June, 2020. The firm has availed loan moratorium on term loan from June 2020 to August 2020 and also availed additional COVID loan of Rs.1.31 crores. The unencumbered cash and bank balances stood at Rs.0.37 crore as on March 31, 2020(Provisional). Acuite believes that the liquidity of the firm will continue to remain adequate, supported by moderate accruals and efficient working capital operations.

Outlook: Stable

Acuite believes that HRPE will remain stable over the medium term backed by their experienced management and stabilisation in operations. The outlook may be revised to 'Positive' in case of sustained improvement in revenues and profitability. The outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or financial risk profile leading to deterioration in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	64.64	28.08
PAT	Rs. Cr.	0.78	0.26
PAT Margin	(%)	1.21	0.92
Total Debt/Tangible Net Worth	Times	1.16	2.97
PBDIT/Interest	Times	3.82	3.09

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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 Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-May-2019	Cash Credit	Long Term	5.00	ACUITE BB- (Assigned)
	Term Loan	Long Term	7.10	ACUITE BB- (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	7.10	ACUITE BB (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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