

Press Release

Cow Brand Agro Foods

September 05, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.20.22 Cr.
Long Term Rating	ACUITE BB / Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.20.22 crore bank facilities of COW BRAND AGRO FOODS (CBAF). The outlook is '**Stable**'.

Cow Brand Agro Foods (CBAF) was established in the year 2016 by Mr. P. Stalin, which is currently managed by his son Mr. Nirmal Stalin. The firm is engaged in milling and processing of paddy into rice with an installed capacity of 12 tons per hour (tph). The firm is located in Tindivanam, Tamil Nadu.

About the Group

Shyam Modern Rice Mill (SMRM) was established in the year 1978 by Mr. P. Stalin, which is currently managed by his son Mr. Nirmal Stalin. The firm is engaged in milling and processing of paddy into rice with an installed capacity of 10.50 tons per hour (tph). The firm is located in Tindivanam, Tamil Nadu.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Cow Brand Agro Foods and Shyam Modern Rice Mill to arrive at the rating on the basis of common management and similar line of business. The two entities together are referred to as "Group".

Key Rating Drivers

Strengths

• **Experience of promoters and established track record of operations**

The firms together were promoted by Mr. P. Stalin, who has an experience of over four decades in the rice milling industry. Extensive experience of promoters has helped in building healthy relationship with its suppliers and customers to ensure regular supply, and repeat business. To further ramp up the scale of the operations and to penetrate the brand presence further, they have promoted Cow Brand Agro Foods. It helped in improving the revenues of the group at a compound annual growth rate (CAGR) of about 14.62 per cent from Rs.122.49 crore in FY2017 to Rs.160.97 crore in FY2019. Acuité believes that the promoters' experience, vintage of operations are expected to support in improvement of its business risk profile over the medium term.

• **Moderate working capital management**

The firms' operations are moderate evident from Gross Current Assets (GCA) of about 101 days historically through FY2019 due to efficient collection of trade receivables at about 15 days. GCA majorly comprises of high inventory holding due to seasonality and stood at about 80-90 days. The group procures the paddy in the peak season and keeps it for ageing for value realisation partly. The group purchases paddy mainly against spot payment; low profitability and continuous procurement of paddy results in moderate utilisation of its bank lines at around 84 per cent in the past six months through July 2019 and operations continues to be moderate over the medium term.

• **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by comfortable capital structure comprising of average gearing (debt- equity) and total outside liabilities to total net worth (TOL/TNW); however, constrained by moderate debt protection metrics. The group's gearing and TOL/TNW is comfortable at 1.99 times and 2.12 times as on March 31, 2019 as against 1.98 times and 2.10 times in FY2018. Its net worth is moderate at Rs.17.47 crore as on March 31, 2019; the partners have infused about Rs.1 crore by way of capital in FY2019. However, low profitability margins lead to moderate debt protection metrics: with

Interest Coverage Ratio (ICR) at 1.75 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.06 times as on March 31 2019. The group has reported cash accruals of about Rs.2.17 crores in FY2019. Acuité believes that the financial profile of the group is expected to be at similar levels over the medium term owing to moderate accretion to reserves, low profitability margins and moderate working capital management though partly supported by absence of significant debt-funded capex plans and regular infusion of capital by the partners.

Weaknesses

- **Low profitability, declining trend**

The group's operating profit margin remained low at 3.52 per cent in FY2019, with a higher raw material to operating income (OI) ratio of 91% and semi integrated nature of operations. Further, the margins have been declining gradually year-over-year from 4.45 per cent in FY2017 to 4.28 per cent in FY2018 and further to 3.52 per cent for FY2019, despite growth in scale of operations. The rice milling business remains moderate working capital in nature, with high requirement to stock paddy in season majorly on cash and carry business leading to a relatively higher procurement cost; also the profitability is partly susceptible to the volatile paddy costs and Government regulation of minimum support price (MSP) of paddy besides prone to monsoon and availability of paddy. Sustainability and improvement of profitability are key rating sensitivity factors to improve the financial risk profile over the medium term.

- **Risk of withdrawal associated with the partnership nature**

The entities under the group are partnership firms. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

- **Highly competitive and fragmented industry affected by agro climatic risks**

The agro commodity (rice) industry is highly competitive with multiple players coupled with low entry barriers resulting into intense competition from both the organised as well as unorganised players. Paddy, which is the main raw material required for rice, is a seasonal crop and adequate and timely availability is highly dependent upon monsoon. Thus, inadequate or erratic rainfall may have a bearing on availability as well as pricing of paddy and have a bearing on the pricing of rice as well as the profitability.

Liquidity

The liquidity profile of the group is adequate. The firms together have reported cash accruals of Rs.2.17 crore in FY2019. It is expected to generate cash accruals in the range of Rs.2.50 crore to 3.50 crore over the medium term, against which its repayment obligations are about Rs.1.00 crore to 1.20 crore, which gives sufficient cushion for the incremental working capital requirements and the liquidity. Working capital utilisation is about 84 per cent on an average for the last six months through July 2019 further adds to the comfort. The current ratio stood at 2.33 times for FY2019. Acuité believes that the liquidity profile continues to be adequate supported by accruals and moderate working capital management with quick turnaround of the working capital cycle.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook on account of the management's extensive experience in the rice milling business and its established relationships with customers and brand recall. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	160.92	143.19	122.49
EBITDA	Rs. Cr.	5.67	6.13	5.45
PAT	Rs. Cr.	0.65	0.62	0.76
EBITDA Margin	(%)	3.52	4.28	4.45
PAT Margin	(%)	0.40	0.43	0.62
ROCE	(%)	8.34	9.09	15.25
Total Debt/Tangible Net Worth	Times	1.99	1.98	2.39
PBDIT/Interest	Times	1.75	1.71	1.81
Total Debt/PBDIT	Times	6.12	5.13	6.38
Gross Current Assets (Days)	Days	101	97	122

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

None

Any other information

None

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>

*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	14.00	ACUITE BB/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.22	ACUITE BB/Stable (Assigned)

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About Acuité Ratings & Research:

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