

Press Release

Cow Brand Agro Foods

November 19, 2020



Rating Reaffirmed, Assigned and Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the 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'.

About the group

Erstwhile known as 'Shyam & Co.' was established in the year 1978 by Mr. P. Stalin; engaged in trading of paddy. Later it was renamed as Shyam Modern Rice Mill (SMRM) and is currently managed by Mr. Nirmal Stalin. Currently, the firm is engaged into milling of paddy and processing of paddy into rice. In the year 1995, the brand name 'Cow Brand' was introduced under Shyam Modern Rice Mill. It has an installed capacity of 6 tons per hour (tph) which is utilized at a capacity of 85%. Cow Brand Agro Foods (CBAF) was established in the year 2016. The firm is engaged into milling of paddy and processing of paddy into rice. It has an installed capacity of 8 tons per hour (tph) which is utilized at a capacity of 85%. The group is located in Tindivanam, Tamil Nadu. The promoters to the group are Mr. P. Stalin, Ms. S. Jayanthi, Mr. S. Nirmal, Ms. N. Karthika and Ms. N. Megha. It processes all variants of rice including ponni rice, idli rice, raw rice, red matta, steamed rice, brown rice. The major revenue contributors are idli rice (20%), ponni rice (30%), and raw rice (30%).

The rating reaffirmation on the bank facilities of the group factors in its established track record of operations, experienced management, moderate financial risk profile and moderate working capital cycle. These rating strengths are partially offset by its low profitability margins, highly competitive and fragmented industry affected by agro climatic risks.

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 'Cow Brand Group'.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

The group together was promoted by Mr. P. Stalin, who has an extensive experience of over four decades in rice milling industry. The promoters' extensive experience and long track record have helped the group in building established relationships with its suppliers and customers over the years. It helped in improving the group's revenues from Rs.143.19 Cr in FY2018 to Rs.160.86 Cr in FY2019 and Rs.162.07 Cr in FY2020 (Provisional). Rice, being an essential commodity, the increase in orders from its existing as well new customers has led to positive traction in revenue. Further, the group has generated consolidated revenue of Rs.100.70 Cr for 7M of FY2021 until October 2020 month. Acuité believes that the group will continue to benefit from its experienced management, long track of business operations and well established relationships with clients and suppliers over the medium term.

- **Moderate working capital management**

The group's operations are moderate evident from its Gross Current Assets (GCA) of about 92 days as on March 31, 2020 (Provisional) as against 102 days as on March 31, 2019 due to efficient collection of trade receivables and inventory days. GCA majorly comprises of moderate inventory holding due to seasonality. The group procures the paddy in the peak season and keeps it for ageing for value realisation. The receivable days stood at 19 days for March ending FY2020 (provisional) as against 16 days as on March 31, 2019. The inventory days stood at 73 days as on March 31, 2020 (Provisional) as against 86 days as on March 31, 2019. The group purchases paddy mainly against spot payment; creditor days stood at 5 days and 6 days as on March 31, 2020 (Provisional) and 2019, respectively. The group's bank lines are moderately utilized at around 75 per cent in the past six months through October 2020. Acuité believes that group's working capital cycle will remain moderate over the medium term.

- **Moderate financial risk profile**

The group's financial risk profile is moderate marked by moderate capital structure and debt protection metrics. The networth of the group stood at Rs.17.93 Cr as on March 31, 2020 (Provisional) as against Rs.17.05 Cr as on March 31, 2019. The debt-equity ratio stood at 1.74 times as on March 31, 2020 (Provisional) as against 2.07 times as on March 31, 2019. The gearing improved on account of a decrease in debt levels and an increase in networth level on account of a marginal increase in the scale of operations. Interest Coverage Ratio (ICR) stood at 1.66 times for FY2020 (Provisional) as against 1.71 times for FY2019. The marginal deterioration in ICR is due to decline in EBITDA in absolute terms. Debt Service Coverage Ratio (DSCR) stood at 1.10 times as on March 31, 2020 (Provisional) as against 1.47 times as on March 31, 2019. TOL/TNW stood improved from 2.22 times as on March 31, 2019 to 1.87 times as on March 31, 2020 (Provisional) on account of a decline in debt levels and increase in networth. 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 the absence of significant debt-funded capex plans.

Weaknesses

- **Modest, declining profitability margins and Susceptibility of operating margins to government regulation in raw material prices**

The group's operating profit margin remained modest and has been on a continuous declining trend over the past 3 years ending FY2020. Operating margins stood at 3.37 per cent in FY2020 (Provisional) as against 3.48 percent in FY2019 and 4.28 percent in FY2018 on account of fluctuation in raw material prices; 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. Acuité believes that sustainability and improvement of profitability will remain the key rating sensitivity factors to improve the financial risk profile over the medium term.

- **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 in intense competition from both the organized as well as unorganized 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.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management, leading to deterioration in financial risk profile and liquidity.

Liquidity Position: Adequate

The liquidity profile of the group is adequate. The group reported cash accruals of Rs.1.91 crore in FY2020 (Provisional) as against the repayment obligation of Rs.1.43 Cr for the said period. It is expected to generate cash accruals in the range of Rs.2.20 crore to Rs.3.10 crore over the medium term through FY21-23, against which its repayment obligations are about Rs.1.60 crore to 1.40 crore, which gives sufficient cushion for the incremental working capital requirements and the liquidity. Working capital utilization is about 75 per cent on an average for the last six months through October 2020. The cash and bank balance of the group stood at Rs.0.40 Cr as on March 31, 2020 (Provisional). The current ratio stood at 1.46 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity profile continues to be adequate, supported by accruals and moderate working capital management.

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. 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 the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	162.07	160.86
PAT	Rs. Cr.	0.57	0.56
PAT Margin	(%)	0.35	0.35
Total Debt/Tangible Net Worth	Times	1.74	2.07
PBDIT/Interest	Times	1.66	1.71

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
05-Sep-2019	Cash Credit	Long Term	14.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	6.22	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	14.00	ACUITE BB / Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	6.22	ACUITE BB (Withdrawn)
Term Loan	June 2020	8.20	May 2024	3.60	ACUITE BB / Stable (Assigned)
Term Loan	August 2019	10.50	July 2024	1.30	ACUITE BB / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE BB / Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	

About Acuité Ratings & Research:

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