

Press Release

Cow Brand Agro Foods

February 21, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.22	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	20.22	-	-

Rating Rationale

Acuite has reaffirmed its 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**'.

Rationale for rating reaffirmation

The rating is reaffirmed basis the stable operating and financial performance of CBAF, marked by stable operating income, range-bound operating margins and above-average financial risk profile. The operating income of the group improved to Rs.158.05 Cr in FY2022 as against Rs.157.83 Cr in FY2021. It generated a revenue of Rs.90.73 Cr in 9MFY2023. Going forward, the group's ability to improve its scale of operations while maintaining its profitability margins and capital structure will remain a key rating monitorable.

About the Firm

Cow Brand Agro Foods (CBAF) was established in the year 2016. The firm is engaged in milling of paddy and processing of paddy into rice. The paddy processing facilities are located in Tindivanam, Tamil Nadu with an installed capacity of 8 tons per hour (tph). The promoters of the group are Mr. P. Stalin, Ms. S. Jayanthi, Mr. S. Nirmal, Ms. N. Karthika and Ms.N. Megha

About the Group

Erstwhile known as 'Shyam & Co.', was established in the year 1978 by Mr. P. Stalin; is 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 in 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. SMRM's processing facility is located in Tindivanam, Tamil Nadu with an installed capacity of 6 tons per hour (tph).

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite 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 was established in 1978 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. Over the years, the group has been able to develop a strong brand presence (Cow Brand), primarily in Tamil Nadu and other South states, which enabled it to achieve a steady increase in its scale of operations to Rs.160 Cr over the years. The group has generated consolidated revenue of Rs.90.73 Cr for 9M of FY2023. The demand prospects for rice, a staple food grain, remain favourable with India being the world's second largest producer and consumer of rice. 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.

Above-average financial risk profile

The group's financial risk profile is above-average marked by moderate capital structure and debt protection metrics. The networth of the group stood at Rs.20.48 Cr as on March 31, 2022 as against Rs.20.32 Cr as on March 31, 2021. The debt-equity ratio stood at 1.36 times as on March 31, 2022 as against 1.43 times as on March 31, 2021. TOL/TNW stood improved from 1.42 times as on March 31, 2022 to 1.49 times as on March 31, 2021. Debt protection metrics - Interest Coverage Ratio (ICR) and Net Cash Accruals by Total Debt (NCA/TD) stood at 1.89 times and 0.07 times for FY2022 as against 1.72 times and 0.06 times respectively for FY2021. Acuité believes that the financial profile of the group is expected to be at similar levels over the medium term.

Efficient Working capital management

The group's operations are efficient as evident from its Gross Current Assets (GCA) of about 94 days as on March 31, 2022 against 93 days as on March 31, 2021 due to efficient collection of trade receivables and inventory days. GCA days 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 efficient at 13 days for as on March 31, 2022 as against 13 days as on March 31, 2021. The inventory days stood at 82 days as on March 31, 2022 as against 81 days as on March 31, 2021. The group purchases paddy mainly against spot payment; creditor days stood at 2 days and 3 days as on March 31, 2022 and 2021, respectively. The group's bank lines are moderately utilized at around 74.21 per cent in the past 12 months through December 2022. Acuité believes that group's working capital cycle will remain efficient over the medium term.

Weaknesses

Stagnant revenues and volatile profitability over the past three years

The company's total operating income has remained stagnant in the range of Rs.150-160 Cr over the past three years and the profit margins EBITDA and PAT are also muted at 2.75 to 3.50 percent and 0.34-0.36 percent respectively over the past three years ended with FY2022. Acuité believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and 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 with 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. Moreover, changes in the Government regulations pertaining to the rice industry can impact the industry dynamics.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile

Material Covenants

None

Liquidity Position: Stretched

Cow Brand Group's liquidity is stretched with tightly matching net cash accruals to its repayment obligations. The group has generated cash accruals of Rs.1.80 to 2.00 Cr during the last three years through 2020-22, while its maturing debt obligations were in the range of Rs.1.76 Cr-1.85 Cr during the same period. The group is expected to generate cash accruals of Rs.1.76 to 2.27 Cr through 2023-25, while its maturing debt obligations are expected to be in the range of Rs.1.11-0.65 Cr during the same period. The average fund-based working capital utilization stood at 74.21 percent for the past 12 months ended December 2022. The group has maintained unencumbered cash and bank balances Rs.0.22 Cr and the current ratio stood at 1.64 times as on March 31, 2022. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of modest cash accrual as against its repayments.

Outlook: Stable

Acuite 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	158.05	157.83
PAT	Rs. Cr.	0.56	0.54
PAT Margin	(%)	0.35	0.34
Total Debt/Tangible Net Worth	Times	1.36	1.43
PBDIT/Interest	Times	1.89	1.72

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of

the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Feb 2022	Proposed Bank Facility	Long Term	2.04	ACUITE BB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.15	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	1.03	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	14.00	ACUITE BB Stable (Reaffirmed)
19 Nov 2020	Cash Credit	Long Term	14.00	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	3.60	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	1.30	ACUITE BB Stable (Assigned)
	Proposed Bank Facility	Long Term	1.32	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	6.22	ACUITE BB (Withdrawn)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.04	ACUITE BB Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	19 Aug 2019	9.50	19 Apr 2025	Simple	1.03	ACUITE BB Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Working Capital Term Loan	15 Jun 2020	8.20	02 Jul 2024	Simple	3.15	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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