

Press Release
Cow Brand Agro Foods
July 04, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.22	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	37.22	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.37.22 crore bank facilities of Cow Brand Agro Foods (CBAF).The outlook is '**Stable**'

Rationale for rating reaffirmation

The rating reaffirmation considers long track record of operations and extensive experience of management of over four decades in rice milling industry. It further considers the moderation recorded in operating revenues in FY2023 and estimated in FY2024 primarily on account of inflation in rice prices leading to lower sales volumes for its branded rice. Further, the working capital operations moderated with elevated GCA days of 130 days in FY2023 against 95 days in FY2022 primarily on account of increased inventory levels.

The rating further remains constrained due to average financial risk profile marked by average networth, coverage indicators and moderate gearing levels.

Going ahead, CBAF's ability to improve its scale of operations and profitability levels, while maintaining its capital structure and adequate liquidity will remain key monitorable.

About the Company

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 firm are Mr. P. Stalin, Ms. S. Jayanthi, Mr. S. Nirmal, Ms. N. Karthika and Ms.N. Megha.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Cow Brand Agro Foods post merger of the group firm Shyam Modern Rice Mill, to arrive at this rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The firm was established in 2016 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 firm in building established relationships with its suppliers and customers over the years. Over the years, the firm has been able to develop a strong brand presence (Cow Brand), primarily in Tamil Nadu and other South states, which enabled it to achieve moderate scale of operations over the years. 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 CBAF 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 financial risk profile of company is above-average marked by average networth, coverage indicators and moderate gearing level. The gearing levels moderated to at 1.57 times in as on March 31, 2023 against 1.36 times as on March 31, 2022. It is further estimated to moderate to ~1.65 times in FY2024. The moderation is due to a higher increase in debt levels as compared to increase in net worth. Further, there has been regular minor withdrawals from the capital over the last two years ending March, 2023. The ICR stood at 1.59 times in FY2023 against 1.89 times in FY2022 and is estimated to remain ~1.60 times in FY2024. The DSCR, however, stood below unity at 0.96 times in FY2023 against 1.00 times in FY2022. However, there have been no delays in debt servicing as confirmed by the lender. The NCA/TD stood average at 0.05 in FY23 as against 0.07 in FY22. The Debt/EBITDA level stood high at 7.06 times in FY2023 against 6.21 times in FY2022.

Going ahead, the financial risk profile is expected to remain average over the near to medium term on account of estimated average accruals generation.

Moderate Working Capital Management

The working capital operations of the firm are moderate in nature marked by GCA days of 130 days in FY2023 against 95 days in FY2022. The GCA days are led by high inventory days of 114 days in FY2023 against 82 days in FY2022. The increase in inventory days is on account of lower rice sales during the year due to inflation in its prices. The debtor days stood at 18 days in FY2023 against 13 days in FY2022. Further, the creditor days stood same at 2 days for FY23 and FY22.

Acuite believes going ahead, working capital operations are estimated to remain in similar range over the medium term.

Weaknesses

Moderation in Operating Revenue: albeit Stable margins

The CBAF's total operating income stood at Rs.132.78 Cr. in FY2023 against Rs.158.05 Cr. in FY2022. The decline in operating income is on account of lower sales of rice due to inflation in its prices levels during the year and shift in consumer demand towards locally available(unbranded) rice. Further, the revenue is estimated to be around Rs.149.37 Cr. in FY2024. The operating margin increased in the FY2023 to 3.33 percent from 2.83 per cent in FY2022. The reason for the increase in the operating margin primarily due to high price realisations during the year. The PAT margin remains range-bound at 0.35 percent in FY23 and FY22 as well.

Acuite believes that growth in revenues and profitability will remain key rating sensitivity factors in improving its business and financial risk profile over the medium term.

Inherent risk of capital withdrawal in a partnership firm

The Firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Highly competitive and fragmented industry affected by agro climatic risks and regulatory risk

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.
- Any significant withdrawals from the capital.

Liquidity Position

Adequate

The liquidity position of CBAF is adequate marked by generation of sufficient net cash accruals to service its debt obligations. The firm has generated cash accruals in the range of Rs.1.60 – 1.86 Cr. against repayment obligations in the range of Rs. Rs.1.76-1.85 Cr. during the period FY2022 and FY2023. Going ahead, the net cash accruals are expected to remain sufficient to meet repayment obligations over the medium term. The company has unencumbered cash and bank balances of Rs.0.16 crore as on March 31, 2023. The current ratio of the company stood moderate at 1.44 times as on 31 March, 2023. The reliance on working capital limits remained moderately high at ~84% over the last 6 months ending April 2024.

Going ahead, Acuite believes, that the adequacy of liquidity position remains exposed to any significant downturn in the operating performance of the firm leading to deterioration in its accruals generation ability.

Outlook: Stable

Acuite believes that the firm 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 the firm records lower than expected operating income and profitability or 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	132.78	158.05
PAT	Rs. Cr.	0.47	0.56
PAT Margin	(%)	0.35	0.35
Total Debt/Tangible Net Worth	Times	1.57	1.36
PBDIT/Interest	Times	1.59	1.89

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- 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>

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
06 Apr 2023	Cash Credit	Long Term	14.00	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)
	Proposed Long Term Bank Facility	Long Term	2.04	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BB Stable (Assigned)
21 Feb 2023	Cash Credit	Long Term	14.00	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)
	Proposed Long Term Bank Facility	Long Term	2.04	ACUITE BB Stable (Reaffirmed)
11 Feb 2022	Proposed Long Term Bank Facility	Long Term	2.04	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	1.03	ACUITE BB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.15	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	14.00	ACUITE BB Stable (Reaffirmed)

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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.00	ACUITE BB Stable Reaffirmed
Karur Vysya Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	17.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.04	ACUITE BB Stable Reaffirmed
Karur Vysya Bank	Not avl. / Not appl.	Term Loan	19 Aug 2019	Not avl. / Not appl.	19 Apr 2025	Simple	1.03	ACUITE BB Stable Reaffirmed
Karur Vysya Bank	Not avl. / Not appl.	Working Capital Term Loan	15 Jun 2020	Not avl. / Not appl.	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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