

Press Release

R K Industries

September 20, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 5.51 crore
Long Term Rating	ACUITE B+/ Stable (Upgraded from ACUITE B / Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE B+** (**read as ACUITE B Plus**) from '**ACUITE B** (**read as ACUITE B**) to the Rs.5.51 crore bank facilities of R K Industries (RKI). The outlook is '**Stable**'.

The rating upgrade reflects sustainable improvement in its revenues backed by increasing capacity utilisation levels, improving operating margins and moderate working capital cycle. Revenue though remains modest; yet improved from Rs.15.45 crore in FY2016 to Rs.19.44 crore in FY2018 on provisional basis. Operating profit margins have improved significantly to about 5.2 percent in FY2018 (Provisional) against 3.4 – 4.2 percent in the past. Working capital cycle remained moderate with Gross Current Asset (GCA) of 129 days as on 31 March, 2018 on provisional basis; leading to moderate utilisation of its bank lines at 70-80 percent over the last six months ending August, 2018. Liquidity remains adequate with sufficient net cash accruals expected to be generated vis-à-vis nil debt obligations over the medium term.

R K Industries (RKI) was established in 2012 as a partnership firm by Mr. Shashi Kiran, Mr. Linga Reddy and Mr. Thodupurnoori Reddy. It is engaged in processing of parboiled rice with installed capacity of 5 tons per hour (TPH). The administrative office and processing facility is located at Renikunta Village in Karimnagar district of Telangana.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RKI to arrive at this rating.

Key Rating Drivers

Strengths:

- Partner's extensive experience in rice milling business**

RKI is promoted and managed by Mr. Shashi Kiran with a decade of experience in the rice milling industry through its associate concern – Sri Sai Srinivasa Agro Industries. The partner's experience in rice milling industry has helped the firm build healthy relationship with its suppliers and customers to ensure a steady raw material supply of paddy and large offtake. Acuité believes that partner's extensive experience in rice milling industry would aid the business risk profile of the firm over the medium term.

- Moderate Working capital cycle leading to moderate reliance on bank lines**

RKI's operations are moderately capital intensive with Gross Current Assets (GCA) of about 129 days in FY2018 on provisional basis. The GCA entails its low debtor and moderate inventory days. RKI maintains an average inventory of around 3-4 months for smooth running of operations. The peak season is November to January and March to June. It procures higher paddy during the peak seasons and stores it for non-peak season. Also, during the non-peak season, it procures from

traders. The inventory days as on March, 2018 are high at 114 days on provisional basis due to peak season. The inventory days have been in the range of 75-114 days over the past three years ending March, 2018 depending upon the onset of the Kharif season and availability of water for cultivation. Its bank lines are moderately utilised at 70-80 percent over ten months through August, 2018.

RKI has a wide customer base across the states of Karnataka, Kerala and Tamil Nadu with sales made to traders and dealers who cater to domestic markets. It provides credit period extending from cash basis to 20 days. RKI procures paddy from farmers and traders. With farmers, it deals on cash basis and with traders, it gets maximum credit period of 15-20 days. Acuité believes that RKI's operations will continue to be moderate barring peak season operations.

Weaknesses:

- **Below-average financial risk profile; constrained by modest net worth**

RKI's financial risk profile is marked by modest debt protection metrics and capital structure. RKI's gearing remained high at 2.72 times as on March, 2018 on provisional basis vis-à-vis 1.86 times in FY2017. Net worth was modest at Rs.2.01 crore as on March, 2018 on provisional basis against Rs.1.61 crore as on March, 2017. RKI's modest net cash accruals and moderate debt has led to modest NCA/TD and interest coverage ratio of 0.07 times and 1.71 times in FY2018 vis-à-vis 0.09 times and 1.96 times in FY2017. Acuité believes that the financial risk profile will remain below-average over the medium term due to modest net worth.

- **Positive traction in topline; remains modest**

RKI's revenue has grown steadily over the last three years to Rs.19.44 crore in FY2018 on provisional basis from Rs.15.45 crore in FY2016. Acuité believes that revenue growth would continue to show positive traction over the medium term; yet remain modest due to its limited capacity of 5TPH.

- **Fragmented industry and susceptibility to adverse government regulations and volatile in raw material prices**

RKI is operating in a fragmented industry with several unorganised and large organised players leading to competition and volatile realisation in prices. Also, RKI's revenues are average at about Rs.19.44 crore in FY2018 on provisional basis within the industry. The scale of operations is primarily constrained by limited installed capacity, availability of paddy, working capital nature and price fluctuations because of unfavourable climatic conditions. Profitability is also vulnerable to government regulations such as change in duties and tariffs, which impacts the final product pricing. Although steady growth in revenues is expected over the medium term, the scale of operations will remain around these levels, exposing the firm to risks relating to intense competition.

Outlook:

Acuité believes that RKI will maintain a 'Stable' outlook on the back of 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 sustained increase in revenues and profit margins while improving the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	19.44	18.38	15.45
EBITDA	Rs. Cr.	1.02	0.63	0.65
PAT	Rs. Cr.	0.11	0.07	0.07
EBITDA Margin	(%)	5.26	3.44	4.22
PAT Margin	(%)	0.56	0.39	0.46
ROCE	(%)	12.42	8.89	8.83
Total Debt/Tangible Net Worth	Times	2.72	1.86	1.90
PBDIT/Interest	Times	1.71	1.96	2.04
Total Debt/PBDIT	Times	5.37	4.67	5.11
Gross Current Assets (Days)	Days	129	89	124

Status of non-cooperation with previous CRA:

Not Available

Any other information:

Not Available

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29-Aug-2018	Cash Credit	Long term	5.51	ACUITE B (Indicative)
22-Jul-2017	Cash Credit	Long term	5.51	ACUITE B (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	5.51	ACUITE B+/Stable (Upgraded from ACUITE B)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Rating Operations Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Neha Agarwal Senior Analyst - Rating Operations Tel: 040-40055487 neha.agarwal@acuite.ratings.in	

About Acuité Ratings & Research:

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