February 23, 2024

KRBL Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Working Capital	1,460.00	1,460.00	[ICRA]AA(Stable); reaffirmed
Long-term – Unallocated	115.00	115.00	[ICRA]AA(Stable); reaffirmed
Short-term – Non-fund-based limits – LC / BG / Forward limit	145.00	145.00	[ICRA]A1+; reaffirmed
Short-term – Unallocated	78.00	78.00	[ICRA]A1+; reaffirmed
Commercial Paper^	500.00	500.00	[ICRA]A1+; reaffirmed
Total	**2,298.00**	**2,298.00**	

**Instrument details are provided in Annexure-1, ^carved out of working capital limits and proposed*

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of KRBL Limited (KRBL), which include KRBL Limited and its three subsidiaries (KB Exports Private Limited, KRBL DMCC and KRBL LLC).

The ratings reaffirmation considers KRBL's strong market position in the basmati rice industry and a comfortable financial position, as reflected by a steady profitability, low leveraging and healthy debt coverage metrics. ICRA expects the company to maintain healthy profitability (although with some moderation) and strong debt protection metrics in FY2024 as well. KRBL's strong brand presence (both in the domestic and export markets), well established distribution network and diversification of its revenue stream, given its wide geographical presence and a steady contribution from its renewable energy business, continue to support the ratings. The favourable location of KRBL's facilities ensures easy access to the key raw material i.e., paddy, and provides significant comfort to the company's operations. As per ICRA's estimates, the company will continue to record a steady revenue growth in the near term amid favourable domestic demand growth for basmati rice. The growth in domestic sales is likely to be supported by strong demand from metro cities along with an increase in demand for basmati rice from tier-I and tier-II cities. Also, due to improvement in the standard of living, there is a shift of customers from unbranded rice to branded rice in India. Additionally, the company is focusing on sale of branded non-basmati rice in the domestic market, which would diversify its revenue profile further. The export sales are expected to be lower due to negligible bulk rice sales and dispute with the distributor in Saudi Arabia. However, owing to strong brand value and higher domestic sales (although with comparatively lower margin than exports sales), KRBL is expected to post satisfactory results in the near term. The increase in paddy purchase price by more than 10% in the current paddy procurement season and the Government's focus on checking domestic prices of essentials would impact profitability in the near term. However, the overall realisation of basmati rice is expected to remain elevated in FY2025 due to higher paddy procurement price and strong demand of rice in both domestic as well as international markets. Moreover, large free balances, healthy accruals and significant cushion in the working capital limits would continue to support its strong liquidity position.

The ratings are, however, constrained by the stiff competition in the industry and the inherently working capital-intensive nature of operations, driven by high inventory levels required to be maintained owing to the seasonality of basmati paddy availability (October to December). The sizeable inventory levels expose the company to the inventory price risk owing to volatility in prices of both basmati paddy and rice, which is cushioned by the premium pricing due to ageing of inventory as well as KRBL's strong brand presence. As exports account for a sizeable portion of the revenues, the company is vulnerable to adverse movements in foreign exchange rates and changes in trade policies of key export destinations and Government regulations. Its operations also remain exposed to agro-climatic risks, which affect the availability, quality, and pricing of basmati rice/paddy. ICRA notes that the company is also exposed to the risks associated with Government and environmental regulations, which could adversely impact its operations. ICRA notes the ongoing litigations related to various investigations and will continue to monitor the impact of the same on the credit profile of the company.

The Stable outlook on the long-term rating emphasises ICRA's opinion that KRBL is likely to sustain its operating metrics and strong liquidity position through steady revenue growth and stable profitability, deriving significant benefit from its leadership position in the industry, a strong brand presence and a robust financial profile.

Key rating drivers and their description

Credit strengths

Leading player in Indian basmati sector with strong brand presence – KRBL is a fully-integrated rice company with an operational track record of over three decades. Moreover, the company's promoters have several decades of experience in the basmati rice industry. KRBL's agri-business is integrated in nature with presence across the value chain comprising milling of paddy, captive husk-based power generation and processing of byproducts. Moreover, a wide distribution network and an established client base have enabled KRBL to emerge as one of the leading players in the industry.

Diversification of revenue stream – KRBL's revenue stream is diversified, given its presence in both domestic and export markets, which reduces the concentration to any specific geography. Strong demand from domestic and international markets, shift of domestic consumers from unbranded rice to branded rice and higher realisation are likely to support the company in registering a stable growth in its revenue in FY2024 and FY2025. KRBL has been able to largely sustain its profitability in the recent years on the back of high premium on the brand name and the stock of aged basmati rice. However, a marginal decline in the company's profitability is expected on account of higher paddy price during the current procurement season along with lower bulk exports and very low offload of basmati rice to Saudi Arabia in 9M FY2024 (major export market of KRBL) post dispute with the distributor. Further, steady contribution from its renewable energy generation business segment continues to aid its profit margins to an extent.

Favourable location of KRBL's facilities – The company's facilities are located in Punjab, Uttar Pradesh and Haryana, ensuring easy access to the key raw material i.e., paddy which is procured during the harvest season (October to January). Moreover, these states have numerous other small-to-medium-sized basmati rice milling units, which provide semi-processed/milled rice to KRBL for its processing facility.

Comfortable capital structure and strong debt protection metrics – Healthy internal accrual generation reduced the company's reliance on external debt for meeting the funding requirements (capex and working capital). As a result, KRBL's capital structure remained comfortable with a gearing of 0.1 times as on March 31, 2023. Moreover, with deployment of internal accruals and large cash balances towards meeting the working capital requirements, there has been a steady decline in the external debt-funded inventory. However, peak utilisation level of the working capital limit has marginally increased in the current paddy procurement season due to higher paddy price. With internal accruals likely to remain healthy, the external debt funding of inventory would remain low, thereby maintaining KRBL's comfortable capital structure and debt protection metrics.

Credit challenges

High working capital intensity – The company's working capital intensity remains high primarily due to high inventory levels (given the seasonality in the availability of basmati paddy and the need to store rice for ageing). While high inventory levels increase KRBL's vulnerability towards price volatility, it is valued at a cost and carries a premium pricing due to ageing, which mitigates the impact of price volatility to some extent.

Exposure to changes in trade policies and Government regulations – The company is exposed to the changes in the trade policies of key importing countries, which can impact export revenues. The company is also exposed to the changes in Government regulations such as ban on rice exports or change in the export duty on it. Nevertheless, as the company mainly deals in the basmati rice segment, production of which is surplus in India, exports are likely to continue in the near term. The company remains exposed to the risks associated with environmental regulations, non-compliance of which could adversely impact its operations. However, the company has been taking various measures on a regular basis, which mitigate such risks to an extent.

Vulnerability to foreign exchange and agro-climatic risks – As exports account for a significant portion of its turnover, the company remains exposed to foreign currency fluctuation risks. However, it has a hedging mechanism for reducing the impact of fluctuations in foreign exchange rates. KRBL is exposed to agro-climatic risks such as availability and quality of raw materials, which have a bearing on basmati rice prices.

Intense competition in the industry – The basmati rice industry is highly fragmented and is marked by the presence of numerous players. This intensifies competition and limits the pricing flexibility of the industry participants. However, KRBL benefits to an extent because of its strong brand presence.

Environmental and Social Risks

Environmental considerations: KRBL is heavily exposed to climate change risks as the supply of its key input i.e., paddy depends on the monsoon. Besides, paddy is a water-intensive crop, which has adverse implications from the sustainability perspective of a critical natural resource. While these environmental factors naturally pose supply-side risks, the demand side risks are largely protected because rice is a staple food. However, focus on the development and cultivation of new paddy varieties that need less water could partially mitigate the environmental risks that KRBL remains exposed to. KRBL has been undertaking pilot projects with farmers for using new varieties, however, achieving scalability and durable success in these initiatives remain to be seen.

The byproducts generated by KRBL during the rice milling process like rice bran and paddy husk are also used appropriately. Rice bran is used to make edible oil, and paddy husk is used in the manufacturing of rice husk boards, silica gel and manufacturing of furfural. Soluble rice bran is also used as cattle feed. KRBL uses rice husk generated in its facilities to produce non-conventional power and any excess energy generated is sold to the Punjab State Electricity Board. Efficient usage of by-products allows KRBL to effectively manage its waste and support its profitability through such forward integration initiatives.

Social considerations: The exposure of rice mills to social risks is generally not material. However, rice mills like KRBL Limited depend on a large number of farmers, from whom paddy is procured. To ensure that all farmers harvest good quality grain, KRBL provides them with superior quality seeds. KRBL also provides them with adequate training on agricultural techniques to maximise produce, achieve optimal pesticide and fertiliser usage etc. KRBL ensures that farmers with whom it works are parts of its CSR activities too. Overall, ICRA considers that KRBL's exposure to social risks remains low.

Liquidity position: Strong

KRBL's liquidity is strong, supported by its healthy fund flow from operations worth Rs. 683.6 crore in FY2023. As per ICRA's estimates, the company's cash accruals are likely to remain healthy in FY2024. KRBL's large free cash balances, nil long-term debt repayments, no major debt-funded capex plans and cushion available in the form of undrawn bank lines (around Rs. 508.2 crore as on December 31, 2023) would continue to provide comfort to the company's liquidity and operations. The utilisation of working capital limit remained low at an average of 12% during the past 12 months ending in December 2023. As on December 31, 2023, the company had free cash and cash equivalent of ~Rs. 20.0 crore. In line with the past trend, surplus accruals are likely to be deployed for funding the incremental working capital requirements.

Rating Sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a significant improvement in its revenue and profitability while maintaining strong liquidity and comfortable debt protection metrics on a sustained basis.

Negative factors – Pressure on the ratings could arise if there are any operational or financial challenges on account of the ongoing litigations. Further, pressure on sales volumes or realisations, resulting in a considerable decline in cash accruals, or elongation of the working capital cycle, leading to a Total Debt/OPBDITA of more than 1.0 times on a sustained basis, could result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Rice Millers](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KRBL Limited. As on March 31, 2023, the company had three subsidiaries (including a step-down subsidiary; enlisted in Annexure-II) The details have been given in Annexure II.

About the company

KRBL was set up in 1993 by Mr. Anil K. Mittal, Mr. Anoop K. Gupta and Mr. Arun K. Gupta. The company is one of the largest integrated rice companies in India. The product portfolio of the company comprises brown rice, white rice, steamed rice, parboiled rice, organic rice, chia seeds, bran oil etc. While KRBL deals in both basmati as well as non-basmati rice varieties, its major focus remains on milling basmati rice. KRBL has strong presence in both domestic as well as international markets, where it is mainly present in the branded basmati segment. The brands of the company include India Gate, Doon and Nur Jahan, which cater to the premium basmati rice segment. The company has also increased its focus in the low-price basmati rice segment under a separate brand, Unity. The company has a total rice milling and processing capacity of more than 12 lakh MT.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	4,210.6	5,363.2
PAT	459.4	701.0
OPBDIT/OI	15.7%	17.7%
PAT/OI	10.9%	13.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.2	0.3
Interest coverage (times)	49.4	64.2

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore)	Date and Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					Feb 23, 2024	Nov 22, 2023	Feb 28, 2023	Nov 23, 2022	Nov 8, 2021	Feb 3, 2021	Sep 14, 2020
1	Term Loans	Long-term	0.00	NA	-	-	-	-	[ICRA] AA- (Stable)	[ICRA] AA-@	[ICRA] AA- (Stable)
2	Working Capital	Long-term	1,460.00	-	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA-@	[ICRA] AA- (Stable)
3	Unallocated	Long-term	115.00	-	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	-	-
4	Non-Fund Based – LC/BG/ Forward Limit	Short-term	145.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+@	[ICRA] A1+
5	Unallocated	Short-term	78.00	NA	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-
6	Commercial Paper^	Short-term	500.00	Nil	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+@	[ICRA] A1+

^carved out of working capital limits and proposed; @ refers to Rating Under Watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limits – Working Capital	Simple
Long-term – Unallocated	Not Applicable
Short-term – Non-fund-based limits – LC / BG / Forward limit	Very Simple
Short-term – Unallocated	Not Applicable
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based limits – Working Capital	NA	NA	NA	1,460.00	[ICRA]AA(Stable)
NA	Long-term – Unallocated	NA	NA	NA	115.00	[ICRA]AA(Stable)
NA	Short-term – Non-fund-based limits – LC / BG / Forward limit	NA	NA	NA	145.00	[ICRA]A1+
NA	Short-term – Unallocated	NA	NA	NA	78.00	[ICRA]A1+
Yet to be placed	Commercial Paper^	NA	NA	NA	500.00	[ICRA]A1+

Source: *Company; ^carved out of working capital limits and proposed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
KB Exports Private Limited	70%	Full Consolidation
KRBL DMCC	100%	Full Consolidation
KRBL LLC^	100%	Full Consolidation

Source: *Company; ^Step-down subsidiary of KRBL DMCC*

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About ICRA Limited:

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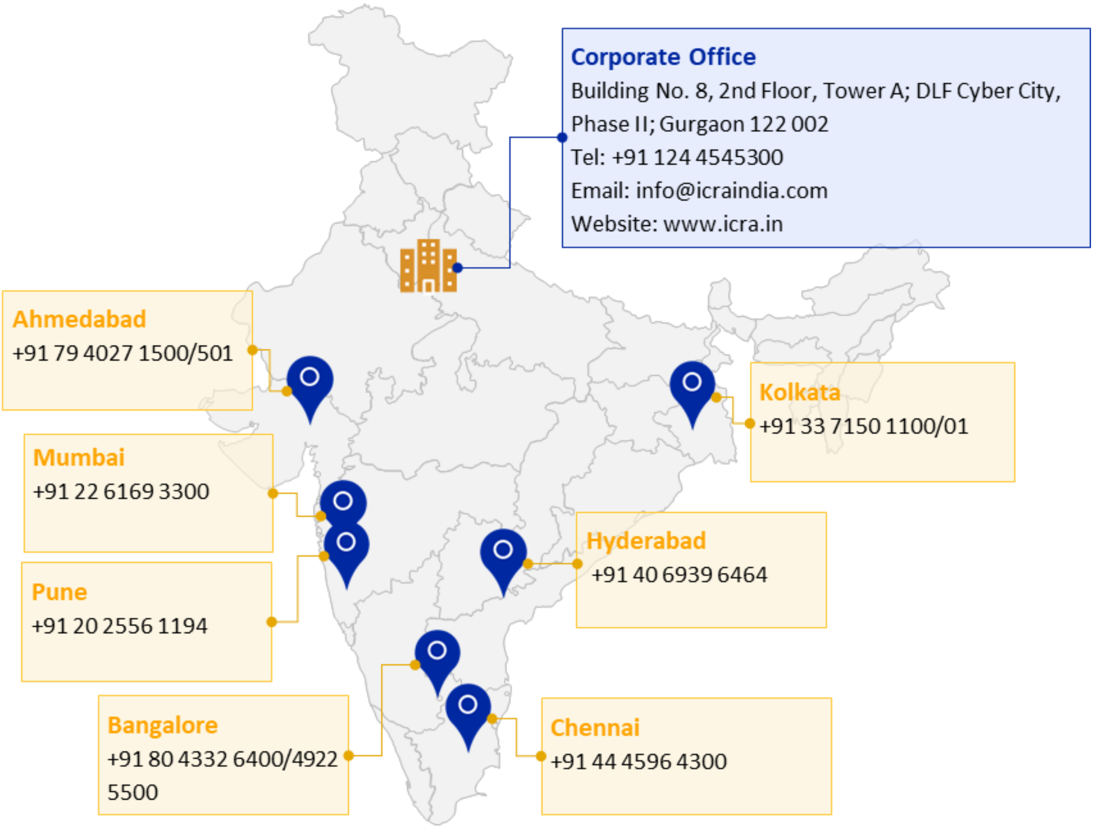

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