November 23, 2022

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 - Term loan	16.05	0.00	--
Long Term - Fund based limits – Working Capital	1,560.00	1,460.00	[ICRA]AA-(Stable); rating reaffirmed
Long Term - Fund based Unallocated	15.00	115.00	[ICRA]AA-(Stable); rating reaffirmed
Short Term - Non-fund-based limits – LC / BG / Forward limit	145.00	145.00	[ICRA]A1+; rating reaffirmed
Short Term - Non-fund based unallocated	61.95	78.00	[ICRA]A1+; rating reaffirmed
Commercial Paper^	500.00	500.00	[ICRA]A1+; rating 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 includes KRBL Limited and its three subsidiaries (KB Exports Private Limited, KRBL DMCC and KRBL LLC).

The ratings reaffirmation takes into consideration KRBL's strong market position in the basmati rice industry and a comfortable financial position, as reflected by a steady profitability, low leverage and healthy debt coverage metrics. ICRA expects the company to maintain a healthy profitability and strong debt protection metrics in FY2023 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, 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 and exports demand growth for basmati rice. The growth in exports is likely to be supported by a strong recovery in sales from Saudi Arabia. The domestic sales would continue to be supported by a steady growth in sales across all its brands, given a strong recovery from the hotel, restaurant, cafe (HoReCa) segment. The deficit estimated in the global rice production in FY2023 would result in more than the past average realisations. Further, the company expects higher sales to European countries from FY2024 after the introduction and commercial production of new varieties of basmati rice, which are in line with the European standards for pesticide levels. Going forward, ICRA estimates an improvement in the company's profitability on account of higher realisations and moderated logistic costs. The same has been witnessed in the company's performance in H1 FY2023. 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 the 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 part 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 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 emphasises ICRA's opinion that KRBL will continue to benefit from its leadership position in the industry, a strong brand presence and a strong financial profile, enabling it to sustain its strong liquidity position.

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. Lower offtake from the HoReCa segment as well as lower-than-expected exports due to a change in distributor in Saudi Arabia led to some moderation in KRBL's revenue and margins in FY2022. However, 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. Moreover, the company's exports have shown an increasing trend in H1 FY2023, owing to recovery in exports. Additionally, the company has been able to pass on the increased shipment/container charges to its customers, which supported its profitability to that extent. 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 suitably located in Punjab, Uttar Pradesh and Haryana, ensuring easy access to the key raw material, 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 resulted in reduced 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 0.04 times as on March 31, 2022. Moreover, with deployment of internal accruals towards meeting the working capital requirements, there has been a steady decline in the external debt funding inventory. With internal accruals expected to remain healthy, the external debt funding of inventory is likely to remain low.

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 the exposure to price volatility, it is valued at cost and carries a premium pricing due to ageing, which insulates against 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, as witnessed recently like the ban on export of broken rice and levy of 20% duty on some varieties of non-basmati rice. 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. Nevertheless, 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 constitute a significant percentage 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. Moreover, given its operations in the agricultural industry, 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 climatic-change risks as the supply of its key input, paddy, depends on the monsoons. 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 given rice's staple character in the food basket. From a longer-term perspective, however, focus on the development and cultivation of new paddy varieties that need less water could partially mitigate the environmental risks that KRBL remain 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 by-products 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 the 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 the farmers with whom it works are parts of its CSR activities too. Overall, ICRA considers KRBL's exposure to social risks remains low.

Liquidity position: Strong

KRBL's liquidity is strong, supported by healthy accrual generation, free cash balances, no major debt repayments or major debt-funded capex plans and cushion available in the form of undrawn bank lines (around Rs. 1,460 crore as of September 30, 2022). The utilisation of working capital limit remained low at an average of 4% during the past 12 months ending in August 2022. As on September 30, 2022, the company had free cash and cash equivalent of ~Rs. 1,498 crore. In line with the past trend, surplus accruals are likely to be deployed for funding the incremental working capital requirements. The company has capex plans of around Rs. 300 crore each in FY2023 and FY2024 for adding new processing facilities at four locations, to be funded entirely from its internal accruals.

Rating Sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a steady improvement in its revenue and profitability while maintaining strong liquidity and comfortable debt protection metrics on a sustained basis. Specific credit metrics that may lead to a rating upgrade include RoCE above 22% 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 Total Debt/OPBDITA of more than 1.5 times on a sustained basis, could lead to a downgrade of the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating approach – Consolidation 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, 2022, the company had three subsidiaries (including a step-down subsidiary; enlisted in Annexure-2) 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 a strong presence in both domestic as well as international markets, where it is largely into the branded basmati segment. The brands of the company include the well-known '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

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	3,991.9	4,210.6
PAT (Rs. crore)	558.9	459.4
OPBDIT/OI	20.6%	15.7%
PAT/OI	14.0%	10.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.4	0.2
Interest coverage (times)	34.9	49.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
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 (FY2023)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating in	Date & Rating							
						FY2022	FY2021		FY2020				
					Nov 23, 2022	Nov 8, 2021	Feb 3, 2021	Sep 14, 2020	Nov 26, 2019	Aug 30, 2019	Jul 12, 2019	May 22, 2019
1	Term Loans	Long-term	0.00	NA	-	[ICRA] AA- (Stable)	[ICRA]AA -@	[ICRA]AA- (Stable)	[ICRA]AA -@	[ICRA]AA- @	[ICRA]AA- @	[ICRA]AA (Stable)
2	Working Capital	Long-term	1,460.00	-	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA]AA -@	[ICRA]AA- (Stable)	[ICRA]AA -@	[ICRA]AA- @	[ICRA]AA- @	[ICRA]AA (Stable)
3	Unallocated	Long-term	115.00	-	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	-	-	-	-	[ICRA]AA- @	[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 +@	[ICRA]A1 +
5	Unallocated	Short-term	78.00	NA	[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 +@	[ICRA]A1 +

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund based limits – Working Capital	Simple
Long Term - Fund based Unallocated	Not Applicable
Short Term - Non-fund-based limits – LC / BG / Forward limit	Very Simple
Short Term - Non-fund based 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital facilities	NA	NA	NA	1,460.00	[ICRA]AA-(Stable)
NA	Fund based -Unallocated	NA	NA	NA	115.00	[ICRA]AA-(Stable)
NA	Non-fund-based limits – LC / BG / Forward limit	NA	NA	NA	145.00	[ICRA]A1+
NA	Non-fund based 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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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