

## KRBL Limited

	Amount	Rating Action
Instrument	(Rs. Crore)	September 2016
Term loan	318.31	Reaffirmed at [ICRA]AA- (stable)
Fund based limits	1575.00	Reaffirmed at [ICRA]AA- (stable)
Non fund based limits	90.00	Reaffirmed at [ICRA]A1+
Commercial Paper	400.00	Reaffirmed at [ICRA]A1+

ICRA has reaffirmed the long term rating at [ICRA]AA- (pronounced as ICRA double A minus) for Rs. 318.31 crore<sup>1</sup> term loans and Rs. 1,575.00 crore fund based working capital facilities of KRBL Limited (KRBL)<sup>†</sup>. The outlook on the long term rating is stable. ICRA has also reaffirmed the short term rating at [ICRA]A1+ (pronounced as ICRA A one plus) for Rs. 90.0 crore non-fund based limits and Rs. 400 crore commercial paper programme of the company.

The ratings reaffirmation take into account consistent growth in turnover and healthy profitability witnessed by KRBL in the basmati rice industry in FY2016 and Q1FY2017 despite the subdued industry sentiment due to weak international demand. The company achieved operating income and OPBDITA margin of Rs 3,374 crore and 14.2% respectively in FY2016 (FY2015: Rs. 3,161 crore and 15.5% respectively) and Rs. 803 crore and 17.5% respectively in Q1FY2017 (Q1FY2016:Rs. 1,025 crore and 14.3% respectively). This has led to strong internal accrual generation with Net Cash Accruals of the company growing from Rs. 334 crore in FY2015 to Rs. 342 crore in FY2016. The company has witnessed decline in average realizations in FY2016 in line with the industry trend, following the low paddy prices in the procurement season in FY2015, however the volumes sold have increased significantly which has driven the growth in turnover. For last two years the paddy prices have been declining because of increased supply and weak international demand. KRBL increased its inventory acquisition as it expects its order inflow to remain steady on the back of strong brand; established relations with international customers; and rising domestic demand. Consequently the company currently holds sizeable inventory at relatively low price and any uptick in realisations is expected to aid the profitability of the company.

Steady internal accruals generation in FY2016 and Q1FY2017 has driven healthy growth in KRBL's net worth (Rs. 1,624 crore as on March 31, 2016 as against Rs. 1,325 crore as on March 31, 2015) led to decline in its gearing to 0.7 times as on March 31, 2016 from 1.0 times as on March 31, 2015. Further, healthy accrual generation has led to strong debt coverage indicators such as interest coverage of 7.6 times in FY2016. Increasingly, the company has been able to fund its working capital requirements by its net-worth thereby moderating dependence on bank-funding. This, along with limited debt repayment commitments has led to strong liquidity position, as also highlighted by sufficient cushion in utilization of the working capital limits against the drawing power.

Apart from above, the ratings continue to derive comfort from KRBL's experienced management and its long track record in the basmati rice industry. KRBL is a leading exporter of basmati rice from India and has a strong market share in the branded basmati rice sales in both domestic and export markets. Further, the ratings derive strength from company's strategic programmes like contract farming and seed development programme to ensure availability of quality paddy. The ratings also favourably factor in the company's expansion into renewable energy generation which has helped the company become self sufficient to largely meet its energy needs and has provided additional stream of revenues for the company. However the delays in recovering money from sale of power in some of the states remain a cause of concern.

However the ratings continue to factor in the inherently working capital intensive nature of operations of the basmati rice industry primarily on account of high inventory levels given the seasonality in the availability of basmati paddy (October to December). Further in order to improve the characteristics of the basmati rice, paddy needs to be aged by storing for a period of time, accentuating the inventory holding period.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in). or other ICRA Rating Publications



Consequently, the debt coverage and cash flow metrics of the company remain moderate in relation to the rating category – Debt/OPBDITA of 2.42 times, NCA/Debt of 30% and FFO/total debt of 0.39 times. The need to maintain such sizeable inventory also exposes the company to inventory price risk. The ratings also take into consideration the high competitive intensity of the industry; exposure to agro climatic risks impacting the availability and quality of paddy and hence its pricing; and exposure to trade policies of importing countries.

Going forward ICRA expects the profitability of the company to remain robust and with limited debt repayment obligation, debt coverage indicators of the company to remain comfortable.

#### **About the company**

KRBL Limited was promoted 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 with a downstream product chain including by-products like rice bran oil, de-oiled cakes and furfural fuel additive. KRBL deals in basmati as well as non-basmati varieties. Nevertheless, its main focus area is milling of basmati rice, which is a more lucrative segment in the global rice industry.

KRBL is a fully integrated rice company with experience of more than 25 years in the rice industry. Basmati is the mainstay of the business. In the global rice industry, basmati is the more lucrative segment because of low competition (India & Pakistan are the only players, with Indian Basmati being superior in quality), higher realization, increasing domestic and export demand and low government regulation.

#### **Recent Results**

During FY2016, on consolidated basis, company registered sales of Rs. 3,374 crore and net profit after tax of Rs. 337 crore as against sales of Rs. 3,161 crore and net profit after tax of Rs. 322 crore in FY2015.

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