

August 30, 2019

KRBL Limited: Ratings reaffirmed; continue to remain under watch with negative implications

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	80.71	44.0	[ICRA]AA- @; reaffirmed
Working Capital	1575.0	1575.0	[ICRA]AA- @; reaffirmed
Non-fund Based - LC/BG/Forward Limit	179.0	179.0	[ICRA]A1+ @; reaffirmed
Unallocated	44.29	-	-
Total	1879.0	1798.0	
Commercial Paper^	500.0	500.0	[ICRA]A1+ @; withdrawn
Commercial Paper^	200.0	200.0	[ICRA]A1+ @; reaffirmed

*Instrument details are provided in Annexure-1 @ - under watch with negative implications ^ carved out of working capital limits

Rationale

The rating action factors in KRBL Limited's (KRBL) leadership position in the Basmati rice industry, supported by its sizeable scale of operations, established operational track record and extensively experienced promoters. Its wide distribution network and geographical presence, and the strong brand premium enjoyed by its key brands (both in the domestic and export markets) also support the ratings. These factors have enabled KRBL to register steady revenue growth and largely sustain its profitability, on the back of high premium on the stock of aged Basmati rice, increased contribution from branded sales and firming up of average realisations – both in the domestic and export markets. Steady contribution from its renewable energy generation business segment also supports it. Moreover, the integrated nature of the company's operations in agri-business segment and contribution from the renewable energy segment inherently boost profit margins. The resultant healthy internal accrual generation and limited capex requirements have decreased its reliance on external debt to meet the funding requirements of the business. This is demonstrated by the steady decline in the percentage of inventory funded through external debt to 44% as on March 31, 2019 from around 66% as on March 31, 2014. KRBL's gearing level remains comfortable (~0.50 times) and its debt protection metrics remain robust. The liquidity position continues to be supported by internal accrual generation, no major capex, limited debt repayment liability and unutilised bank lines.

KRBL's ratings, however, are constrained by the intense competition in the industry and the inherently working capital-intensive nature of operations, primarily because of the high inventory levels required to be maintained due to the seasonality of Basmati paddy availability (October to December). The inventory requirements are accentuated by the need to store rice for a certain period (called ageing) to improve its quality and command premium pricing. The sizeable inventory levels expose the company to inventory price risk, owing to the volatility in the prices of both Basmati paddy and rice, which is only cushioned by the brand strength. Also, given that 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 importing countries. This has, in fact, become pronounced in the recent times. While there is some uncertainty on the

future level of imports by Iran, Saudi Arabia is also proposing some new guidelines for its Basmati rice imports. Any reduction in demand from these two nations can have an adverse impact on the industry, given that these two countries are the leading importers of Basmati rice from India. ICRA also notes that the industry participants, including KRBL, remain exposed to agro-climatic risks that impact the availability and quality of paddy and in turn, its pricing. Paddy prices have firmed up considerably over the past few procurement seasons, resulting in an increase in the cost of inventory. This accentuates the price risk, considering the anticipated demand volatility in the export market, and its resultant impact on the domestic prices as well.

The ratings remain under watch due to the recent action of the Enforcement Directorate against the company and the ongoing investigations on the case. Any adverse development in this matter may impact the company's operational profile. Therefore, ICRA will continue to monitor the developments in this regard.

Going forward, the developments on the aforesaid matter and KRBL's ability to maintain its revenue growth and profitability amid competitive pressures, price volatility and changing import policies and practices of key Basmati rice importers, remain the key rating sensitivities.

Outlook: Not applicable

Key rating drivers

Credit strengths

Established operational track record; extensive experience of promoters in Basmati rice industry – 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.

Strong brand presence; position among leading Basmati rice exporters in India – KRBL benefits from its established operational track record, experienced promoters, wide distribution network and established client base. These factors have enabled it to emerge as one of the leading players in the Basmati rice industry.

Integrated nature of operations – KRBL's agri-business is integrated in nature with presence across the value chain from initiatives like contract farming and seed development, milling of paddy, captive husk-based power generation and processing of by-products.

Steady revenue growth and sustenance of profitability – Over the years, KRBL has reported steady revenue growth. Its operating income (OI) has grown to Rs. 4,122 crore in FY2019 from Rs. 3,247 crore in FY2018. Moreover, maintaining the momentum, the company has already reported revenues of Rs. 1,218 crore in Q1 FY2020. This growth has been fuelled by both an increase in sales volumes as well as firming up of Basmati rice prices. Further, sizeable level of exports to Iran, largely against Government-backed tenders supported the growth. KRBL has been able to largely sustain its profitability in the recent years on the back of high premium on the stock of aged Basmati rice, increased contribution from branded sales, firming up of average realisations, both in the domestic and export markets. Steady contribution from its renewable energy generation business segment also boosted profitability.

Steady decline in gearing levels and robust debt-protection metrics – Healthy internal accrual generation translates into reduced reliance on external debt for meeting funding requirements (capex and working capital). The gearing level has declined to 0.50 times as on March 31, 2019.

Steady decline in inventory/debt ratio – Healthy internal accrual generation has translated into steady decline in the percentage of inventory funded through external debt from around 66% as on March 31, 2014 to 44% as on March 31, 2019. Additionally, the inventory, valued at cost, carries a pricing premium, considering the increase in Basmati rice prices both in the domestic and international markets.

Liquidity position – The company's liquidity position is supported by healthy internal accrual generation, no major debt-funded capex and debt repayment liability. This is further reflected by its moderate utilisation of working capital limits availed from the bank during the year, other than the paddy procurement season.

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 need to store the rice for ageing). This improves the quality of rice and attracts premium pricing.

Intense competition – 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 industry participants. However, KRBL benefits to an extent because of its strong brand presence.

Exposure to changes in trade policies – The company is exposed to changes in the trade policies of key importing countries, which can impact export revenues. The tightening of pesticide residue parameters led to a decline in exports in the European Union. While there is some uncertainty on the future level of imports by Iran, Saudi Arabia is also proposing some new guidelines for its Basmati rice imports. Any reduction in demand from these two can have an adverse impact on the industry, given that these two countries are the leading importers of Basmati rice from India.

Exposure to foreign exchange risk – As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of unhedged exposure. However, it has a hedging mechanism in place to reduce any impact of fluctuation in foreign exchange rates.

Vulnerability of price volatility – The margins of the company are vulnerable to raw material price fluctuation, which in turn affects sales realisations. Any adverse movement in the price of raw materials could impact the company's margins, considering the intense competition. However, the risk is mitigated to an extent because of the pricing premium enjoyed by its well-established brands.

Liquidity position

KRBL's debt largely comprises working capital limits from the bank. The company's liquidity position is supported by healthy internal accrual generation, no major debt-funded capex and debt repayment liability. This is further reflected by its moderate utilisation of working capital limits availed from the bank during the year, other than the paddy procurement season.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Indian Rice Industry Mapping of ICRA's Long-Term and Short-Term Ratings
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, 2019, the company had three subsidiaries (including step-down subsidiary; enlisted in Annexure-2)

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 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 rice varieties. KRBL also forayed into the healthy food segment with the launch of nutritionally superior products to include India Gate Quinoa, India Gate Sprouted Brown Rice, India Gate Chia Seed and India Gate Flax Seed. Nevertheless, it is mainly focused on milling Basmati rice, which is a more lucrative segment in the global rice industry.

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

In FY2019, on a consolidated basis, the company reported a net profit of Rs. 503.0 crore on an OI of Rs. 4121.8 crore compared with a net profit of Rs. 434.4 crore on an OI of Rs. 3246.9 crore in the previous year.

Key financial indicators (audited) – consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	3,246.9	4,121.8
PAT (Rs. crore)	434.4	503.0
OPBDIT/OI (%)	23.9%	20.7%
RoCE (%)	21.4%	20.1%
Total Debt/TNW (times)	0.5	0.5
Total Debt/OPBDITA (times)	1.6	1.7
Interest coverage (times)	11.2	12.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)							Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating			Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				August 2019	July 2019	May 2019	August 2018	August 2017	September 2016
1 Term Loans	Long Term	44.0	44.0	[ICRA]AA-@	[ICRA]AA-@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA] AA(stable)	[ICRA] AA-(stable)
2 Working Capital	Long Term	1,575.0	-	[ICRA]AA-@	[ICRA]AA-@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA] AA(Stable)	[ICRA] AA-(Stable)
3 Non-fund Based - LC/BG/Forward Limit	Short Term	179.0	-	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+
4 Unallocated	Long Term	-	-	-	[ICRA]AA-@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
5 Commercial Paper	Short Term	200.0	-	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+
6 Commercial Paper	Short Term	500.0	-	[ICRA]A1+@; withdrawn	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+

@ - under watch with negative implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	2015	-	2022	44.0	[ICRA]AA-@
NA	Working Capital	-	-	-	1,575.0	[ICRA]AA-@
NA	Non-fund Based - LC/BG/Forward Limit	-	-	-	179.0	[ICRA]A1+@
NA	Commercial Paper	-	-	-	200.0	[ICRA]A1+@

@ - rating placed under watch with negative implications

Source: KRBL Limited

Annexure-2: 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

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About ICRA Limited:

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