November 08, 2021

# KRBL Limited: Ratings reaffirmed; removed from Watch with Negative Implications, Stable outlook assigned

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loans | 44.00 | 16.05 | [ICRA]AA-(Stable); reaffirmed and removed from Watch with Negative Implications; Stable outlook assigned |
| Fund Based limits - Working Capital | 1,575.00 | 1,560.00 | [ICRA]AA-(Stable); reaffirmed and removed from Watch with Negative Implications; Stable outlook assigned |
| Fund Based – Unallocated | - | 15.00 | [ICRA]AA-(Stable); reaffirmed and removed from Watch with Negative Implications; Stable outlook assigned |
| Non-Fund Based – LC/BG/Forward Limit | 179.00 | 145.00 | [ICRA]A1+; reaffirmed and removed from Watch with Negative Implications |
| Non-Fund Based - Unallocated | - | 61.95 | [ICRA]A1+; reaffirmed and removed from Watch with Negative Implications |
| Commercial Paper^ | 500.00 | 500.00 | [ICRA]A1+; reaffirmed and removed from Watch with Negative Implications |
| **Total** | **2,298.00** | **2,298.00** | |

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

## Rationale

ICRA has reaffirmed the ratings assigned to the bank limits and commercial paper of KRBL Limited (KRBL). While reaffirming, the ratings have been removed from Watch with Negative Implications, and Stable outlook has been assigned to the long-term rating. The ratings were earlier placed under Watch with Negative Implications after the company announced, vide its stock exchange notification dated January 31, 2021, that its Joint Managing Director, Mr. Anoop Kumar Gupta, has been detained by the Enforcement Directorate (ED) in connection with the ongoing investigations of the AgustaWestland case. Further to this development, in April 2021, Mr. Gupta was released on bail as per the company's announcement, vide its stock exchange notification dated April 5, 2021. ICRA notes that the ongoing litigations/investigations did not have any material adverse impact on the company's operational and financial profiles, as reflected in the company's healthy financial profile and strong liquidity position in the recent times. Nonetheless, ICRA will continue to monitor the developments in this matter and any adverse impact of the same on the credit profile of the company.

The ratings continue to factor in 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 FY2022 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 as well as a steady contribution from its renewable energy business, continue to support the ratings. The favourable location of KRBL's facilities, which ensures easy access to the key raw material, paddy, provides significant comfort to the company's operations. As per ICRA's estimates, the company would continue to record a steady growth in its revenues in the near term, along with a stable profitability. Moreover, healthy accruals and shorter working capital cycle would support its strong liquidity position.

However, the ratings are 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 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. 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.

The Stable outlook reflects ICRA's expectation that KRBL will continue to benefit from its leadership position in the industry, a strong brand presence and adequate 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 contact farming and seed development, milling of paddy, captive husk-based power generation and processing of byproducts. Moreover, a wide distribution network and established client base have enabled KRBL to emerge as one of the leading players in the industry.

**Diversification of the revenue stream –** KRBL's revenue stream is diversified, given its presence in both domestic and exports markets, which reduces the concentration to any specific geography. Lower offtake from HoReCa (hotels, restaurants and catering) segment as well as lower-than-expected exports, due to the lockdown imposed to contain the pandemic, resulted in some moderation in KRBL's revenue in FY2021. 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. 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 profit margins to an extent.

**Favourable location of KRBL's facility –** 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 steady availability of 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 0.1 times as on March 31, 2021. 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** – The company is exposed to changes in the trade policies of key importing countries, which can impact export revenues. There is some uncertainty on the future level of imports by Iran and any material reduction in imports can have an adverse impact on the industry, considering KRBL is one of the leading importers of basmati rice from India.

**Vulnerability of foreign exchange and agro-climatic risks** – As exports constitute a significant percentage of its turnover, the company remains exposed to currency fluctuations. However, it has a hedging mechanism for reducing the impact of fluctuations in foreign exchange rates. Moreover, given its operations in an agri-based industry, KRBL is exposed to agro-climatic risks such as raw material availability and its quality, 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.

## Liquidity position: Strong

KRBL's liquidity is strong, supported by healthy accrual generation, free cash balances, no major debt repayment liability or major debt-funded capex plans and cushion available in the form of undrawn bank lines (around Rs. 1,575 crore as of June 2021). The utilisation of working capital limit remained low at an average of 11% during the past 12 months ending June 2021. As on March 31, 2021, the company had free cash and bank balances of ~Rs. 159 crore. In line with the past trend, surplus accruals are likely to be deployed for funding the incremental working capital requirements, resulting in further reduction in reliance on external debt.

### Rating sensitivities

**Positive factors –** The ratings could be upgraded if the company demonstrates a healthy growth in its internal accrual generation, leading to lower reliance on external debt and a considerable improvement in its profitability as well as debt protection metrics on a sustained basis. Specific credit metrics that may lead to an 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<br>Rating Methodology for Rice Millers<br>Rating Approach – Consolidation |
| **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, 2021, the company had three subsidiaries (including a 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 byproducts such as rice bran oil, de-oiled cakes, etc. KRBL deals in basmati as well as non-basmati rice varieties. KRBL 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.

## Key financial indicators (audited)

| Consolidated | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 4,499.5 | 3,991.9 |
| PAT (Rs. crore) | 558.2 | 558.9 |
| OPBDIT/OI (%) | 19.4% | 20.6% |
| PAT/OI (%) | 12.4% | 14.0% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.4 | 0.3 |
| Total Debt/OPBDIT (times) | 0.7 | 0.4 |
| Interest Coverage (times) | 13.9 | 34.9 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2021 (Rs. crore) | Date & Rating in FY2022 | Date & Rating in | | | | | | | |
| | | | | | | FY2021 | | FY2020 | | | | FY2019 | |
| | | | | | Nov 8, 2021 | Feb 3, 2021 | Sep 14, 2020 | Nov 26, 2019 | Aug 30, 2019 | Jul 12, 2019 | May 22, 2019 | Feb 13, 2019 | Aug 14, 2018 |
| 1 | Term Loans | Long-term | 16.05 | 16.05 | [ICRA]AA- (Stable) | [ICRA]AA-@ | [ICRA]AA- (Stable) | [ICRA]AA-@ | [ICRA]AA-@ | [ICRA]AA-@ | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 2 | Working Capital | Long-term | 1,560.00 | - | [ICRA]AA- (Stable) | [ICRA]AA-@ | [ICRA]AA- (Stable) | [ICRA]AA-@ | [ICRA]AA-@ | [ICRA]AA-@ | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 3 | Unallocated | Long-term | 15.00 | - | [ICRA]AA- (Stable) | - | - | - | - | [ICRA]AA-@ | [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+ | [ICRA]A1+ | [ICRA]A1+ |
| 5 | Unallocated | Short-term | 61.95 | - | [ICRA]A1+ | - | - | - | - | - | - | - | - |
| 6 | Commercial Paper^ | Short-term | 500.00 | - | [ICRA]A1+ | [ICRA]A1+@ | [ICRA]A1+ | [ICRA]A1+@ | [ICRA]A1+@ | [ICRA]A1+@ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

@-under watch with negative implications

*^carved out of working capital limits*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Term Loan | Simple |
| Working Capital | Simple |
| Unallocated | Not Applicable |
| LC/BG/Forward Limit | Very Simple |
| Unallocated | Not Applicable |
| Commercial Paper | Very Simple |

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

## Annexure-1: Instrument details

| ISIN No/Banker Name | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| State Bank of India | Term Loans | 2015 | - | 2022 | 16.05 | [ICRA]AA-(Stable) |
| State Bank of India | Working Capital | - | - | - | 600.00 | [ICRA]AA-(Stable) |
| HDFC Bank Limited | Working Capital | - | - | - | 500.00 | [ICRA]AA-(Stable) |
| DBS Bank India Limited | Working Capital | - | - | - | 200.00 | [ICRA]AA-(Stable) |
| IndusInd Bank Limited | Working Capital | - | - | - | 100.00 | [ICRA]AA-(Stable) |
| Coöperatieve Rabobank U.A. | Working Capital | - | - | - | 150.00 | [ICRA]AA-(Stable) |
| Karnataka Bank Limited | Working Capital | - | - | - | 10.00 | [ICRA]AA-(Stable) |
| NA | Fund Based – Unallocated | - | - | - | 15.00 | [ICRA]AA-(Stable) |
| State Bank of India | Non-Fund Based – LC/BG/Forward Limit | | | | 65.00 | [ICRA]A1+ |
| IndusInd Bank Limited | Non-Fund Based – LC/BG/Forward Limit | | | | 70.00 | [ICRA]A1+ |
| Karnataka Bank Limited | Non-Fund Based – LC/BG/Forward Limit | | | | 10.00 | [ICRA]A1+ |
| NA | Non-Fund Based – Unallocated | - | - | - | 61.95 | [ICRA]A1+ |
| Yet to be placed | Commercial Paper^ | - | - | 7-365 days | 500.00 | [ICRA]A1+ |

***Source:*** *Company*

*^carved out of working capital limits*

## Annexure-2: List of entities considered for consolidated analysis

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

*^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.

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## ICRA Limited

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