September 14, 2020

KRBL Limited: Ratings reaffirmed; removed from watch with negative implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	44.0	44.0	[ICRA]AA- (Stable); reaffirmed and removed from watch with negative implications; Stable outlook assigned
Working Capital	1575.0	1575.0	[ICRA]AA- (Stable); reaffirmed and removed from watch with negative implications; Stable outlook assigned
Non-fund Based - LC/BG/Forward Limit	179.0	179.0	[ICRA]A1+; reaffirmed and removed from watch with negative implications
Commercial Paper^	500.0	500.0	[ICRA]A1+; reaffirmed and removed from watch with negative implications
Total	**2298.0**	**2298.0**	

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

Rationale

The rating action factors in KRBL Limited's (KRBL) steady performance in FY2020 as marked by revenue growth, sustenance of profit margins, supported by its leadership position in the Basmati rice industry. ICRA's expects that the company will maintain healthy profitability and strong debt protection metrics in FY2021 as well. The ratings were earlier placed under watch with negative implications due to some events (sizeable income tax demand raised against the company and attachment of a property by the Enforcement Directorate/ED). While these cases are ongoing, there have been some favourable developments for KRBL. In the income tax case[1], there has been significant reduction (to Rs. 101 crore from Rs. 1,269 crore) in the tax liability and part refund of the tax was already deposited by KRBL against the same. Moreover, in the ED case[2], there was a favourable ruling for KRBL, by the Appellate Tribunal. However, a petition was filed against the same by the ED in the High Court. Nevertheless, in the interim, the High Court has allowed usage of the attached property. While there has not been any material adverse impact on the company's operational and financial profile due to the same, ICRA will continue to monitor the same.

Additionally, the ratings factor in KRBL's strong brand presence (both in the domestic and export markets), well-entrenched distribution network and diversification of its revenue stream given its wide geographical presence as well as steady contribution from its renewable energy business. It reported a decline in its revenue in Q1 FY2021 due to lower offtake from hotels, restaurants and cafes (Horeca) segment as well as lower exports given the logistical challenges faced during the lockdown imposed to contain the novel coronavirus (Covid-19) pandemic. However, the

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[1]*Income tax demand of Rs.1,269 (including interest) was raised against KRBL in February 2019, on account of disallowance for cash purchases of paddy from farmers, pertaining to assessment years 2010-11 to 2016-17*

[2]*In July 2019, the ED had attached land parcels of KRBL worth Rs. 15.3 crore under Prevention ofMoney Laundering Act, 2002 (PMLA) in connection with 2008 Embraer deal case.*

same is expected to get compensated over the next few quarters. There is likely to be some moderation in revenue growth in the current fiscal. Nevertheless, the company's liquidity position remains comfortable on the back of healthy internal accrual generation, sizeable undrawn bank lines, free cash balances and limited debt repayment liability. Additionally, limited capex requirements have translated into reduced reliance on external debt to meet the funding requirements, as demonstrated by the steady dip in the percentage of debt funding of inventory, over the years. As a result, KRBL's capital structure remained comfortable with a gearing of 0.20 times as on March 31, 2020, with robust debt protection metrics.

However, the ratings are constrained by the stiff competition in the industry and the inherently working capital-intensive nature of operations, driven 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 the prices of both Basmati paddy and rice, which is cushioned by pricing premium 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. There is some uncertainty on the future level of imports by Iran and any material reduction in its imports can have an adverse impact as KRBL remains one of the leading importers of Basmati rice from India. Its operations also remain exposed to agro-climatic risks, which affect the availability, quality and pricing of Basmati rice/paddy.

The Stable outlook reflects ICRA's expectation that KRBL will continue to benefit from its leadership position in the industry, strong brand presence and adequate financial profile; enabling it to sustain its liquidity position.

Key rating drivers and their description

Credit strengths

Strong brand presence; position among leading Basmati rice exporters in India – 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 initiatives like contact farming and seed development, milling of paddy, captive husk-based power generation and processing of by-products. 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 revenue stream – KRBL's revenue stream is diversified, given its presence in both domestic sales and exports, which reduces the concentration to any specific geography. Lower offtake from Horeca segment due to the lockdown imposed to contain the pandemic, is likely to result in some moderation in KRBL's domestic Basmati rice sales in the current fiscal. Nevertheless, growth in the retail segment revenues is likely to compensate the same. Moreover, steady contribution from its renewable energy generation business segment continues to aid profit margins.

Favourable location of KRBL's facility – The company's manufacturing facilities are suitably located in Punjab and Uttar Pradesh, which are the leading Basmati rice producing states. This ensures easy access to the key raw material—paddy—which is typically procured during the harvest season (typically October—January). Moreover, the state has numerous other small-to-medium-sized Basmati rice milling facilities, 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 has continued to translate into 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 0.2 times as on March 31, 2020. Moreover, with deployment of the internal accruals towards meeting the working capital requirements, there has been a steady decline in the percentage of external debt funding inventory to ~13% as on March 31, 2020 from ~66% as on March 31, 2014. 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 the rice for ageing). While high inventory levels increase the exposure to price volatility, it is valued at cost and carries a pricing premium 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 risk 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 – 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, cushion available in the form of undrawn bank lines (~Rs. 1,400 crore as of July 2020), free cash balances (~Rs. 20 crore as of July 2020), no major debt repayment liability or debt-funded capex plans. 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. While its fund flow from operations remained positive in the recent years, the company's cash flow from operations turned positive in FY2020 on the back of lower inventory and debtor levels at yearend. The same is likely to remain positive in the current fiscal.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the company demonstrates healthy growth in its internal accrual generation, leading to lower reliance on external debt and considerable improvement in 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 triggers – Negative pressure on the ratings could arise if there are any adverse developments in relation to the Enforcement Directorate case. Further, continued pressure on sales volumes or realisations, resulting in 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 Methodology for Issuers in the Indian Rice Industry](#)
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, 2020, 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 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

	FY2019	FY2020
Operating Income (Rs. crore)	4,121.8	4,499.5
PAT (Rs. crore)	503.0	558.2
OPBDIT/OI (%)	20.7%	19.4%
PAT/OI (%)	12.2%	12.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.4
Total Debt/OPBDIT (times)	1.7	0.7
Interest Coverage (times)	12.6	13.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	14-Sep-2020	FY2020				FY2019		FY2018		
						26-Nov-2019	30-Aug-2019	12-Jul-2019	22-May-2019	13-Feb-2019	14-Aug-2018	26-Dec-2017	5-Dec-2017	24-Aug-2017
1	Term Loans	Long Term	44.0	44.0	[ICRA]AA-(Stable)	[ICRA]AA-@	[ICRA]AA-@	[ICRA]AA-@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA] AA(stable)	[ICRA] AA(stable)	[ICRA] AA(stable)
2	Working Capital	Long Term	1,575.0	-	[ICRA]AA-(Stable)	[ICRA]AA-@	[ICRA]AA-@	[ICRA]AA-@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[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+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
4	Unallocated	Long Term	-	-	-	-	-	[ICRA]AA-@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
5	Commercial Paper	Short Term	500.0	-	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

@ - under watch with negative implications Amount in Rs. crore

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- (Stable)
NA	Working Capital	-	-	-	1,575.0	[ICRA]AA- (Stable)
NA	Non-fund Based - LC/BG/Forward Limit	-	-	-	179.0	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	500.0	[ICRA]A1+

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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