

No. CARE/DRO/RL/2018-19/2318

Mr. Rakesh Mehrotra
Chief Financial Officer,
KRBL Limited
C-32, 5th Floor, Sector -62
Noida,
Gautam Budh Nagar - 201301

September 24, 2018

Confidential

Dear Sir,

Credit rating for Commercial Paper (CP) issue aggregating Rs. 700 crore¹

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and Q1FY19 (provisional), our Rating Committee has reviewed the following rating(s):

Instrument	Amount (Rs. crore)	Rating ²	Rating Action
Commercial Paper (CP) issue*	700	CARE A1+ (A One Plus)	Reaffirmed

*carved out of the sanctioned working capital limits of the company.

- The CP issue would be for a maturity not exceeding one year.
- Please arrange to get the rating revalidated in case the issue is not made within **two months** from the date of this letter i.e. by November 24, 2018. Once the CP is placed, the rating is valid for the tenure of such instrument till redemption.
- Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr.)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Trustee/IPA	Details of top 10 investors
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¹ This represents the aggregate of all CP issuances of the company outstanding at any point in time.

² Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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5. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by September 26, 2018, we will proceed on the basis that you have no any comments to offer.
6. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
7. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instruments, CARE shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,



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Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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**Annexure
Press Release
KRBL Limited**

Ratings

Instrument	Amount (Rs. crore)	Rating ³	Rating Action
Commercial Paper	700	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	700 (Rs. Seven hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Commercial paper issue of KRBL Limited (KRBL) continues to derive strength from the experienced promoters with long track record of operations in the rice industry, established brand name backed by robust selling & distribution network, integrated operations, diversification in renewable energy as alternate source of revenue. The ratings also take into consideration KRBL's in-house research & development capabilities, strong market share in Middle East countries with premium pricing over the industry average and comfortable financial profile marked by healthy profitability and comfortable solvency & liquidity position.

The rating is, however, constrained on account of working capital intensive operations, volatility of trade due to changes in government policies, foreign exchange risk and fragmented nature of the industry.

Going forward, its ability to profitably scale up the operations and effective working capital management shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with long track record of operations in the rice industry

KRBL Limited (KRBL) was incorporated in 1993 by Mr. Anil K. Mittal (Chairman & MD) and his brothers Mr. Anoop K. Gupta (JMD) and Mr. Arun K. Gupta (JMD). Though, the company was incorporated in its present form in 1993, the family has been in the business for last twelve decades.

Established brand name backed by robust selling & distribution network

KRBL is an established player of basmati and non-basmati rice in the overseas markets. The company sells rice under its flagship brand, 'India Gate' along with the other brands like Taj Mahal, Doon and Nur Jahan. It has created a strong brand presence through collaborations with global retail chains. In FY18, exports

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

constituted around one third of total operating income. KRBL over time has built up a strong distributor network both in the domestic and international markets.

Presence across value chain: India's first integrated rice producing company with a comprehensive product chain and diversification in health foods

KRBL is one of the largest fully integrated rice company. Over the years, the company has made its presence across the value chain of rice business thereby generating higher profitability. KRBL has its presence right from the seed development and distribution, farming stage (through contract farming) and milling of the paddy and selling of finished rice. Integrated operations and presence across the entire value chain facilitates in controlling costs and quality.

Diversification in Renewable energy/ Captive power

KRBL has been continuously expanding its presence in value added products and Power business as a diversification measure which also mitigates the risk from rice business to some extent. With its increasing focus on green manufacturing, KRBL had diversified into renewable energy and has been increasing its capacity. Its green energy portfolio stood at 146.94 MW (PY: 145.19 MW) as on March 31, 2018.

In-house R&D facilities

KRBL has an established in-house R&D facility to ensure best quality basmati rice and continuous development of newer varieties. KRBL has established a special 300 hectare (741 acre) seed farm and a seed grading plant. It sources 'breeder' seeds from various leading Indian Agriculture Research Institutes (PUSA), which are then grown as 'foundation' seeds under the supervision of scientists and the government seed certification agency, before being distributed to farmers.

Strong market share in Middle East countries and premium export pricing

KRBL has a strong market presence in international markets (75 countries) and in particular the Middle East countries. It has a strong presence in Middle East countries such as Saudi Arabia, UAE, Kuwait, Qatar, Oman and Bahrain among others. The Middle East region accounted for nearly 70% of the KRBL's total exports sales during FY18.

Comfortable financial risk profile marked by healthy profitability, solvency and liquidity

The company reported total operational income of Rs.3,246 crore as against Rs.3,148 crore a growth of 3% primarily on account of higher export income. KRBL witnessed growth in the volume as well as the realization in export segment leading to an overall growth of 19% growth in the income. However, the growth in the export segment was off-set by the domestic segment which witnessed a fall of 5% in the domestic income during FY18. KRBL demonstrated a healthy growth in its PBILDT margins during FY18 by 336 bps driven by higher realizations in the domestic as well as export markets. Subsequently, the PAT margin of the company also witnessed an increase of 133 bps during FY18 as against FY17.

KRBL has a comfortable solvency position marked by overall gearing of 0.55x as on March 31, 2018 (PY: 0.58x). The company has been generating healthy cash accruals during the past thereby making it less reliant

on external debt. Majority of the debt is in form of working capital facility owing to the high inventory holding period.

Key Rating Weakness

Working capital intensive operations

Owing to the seasonality of rice harvest (October to December), the company has to maintain suitable raw material inventory to ensure uninterrupted production throughout the year. Further, the inventory requirements are further accentuated by the need to 'age' the rice by storing it for a period of time, as the ageing improves the quality of rice and attract premium pricing. Thus the working capital requirement of the business remains high.

Vulnerability of international trade to changes in government policies

The raw material (paddy) prices are regulated by the government to safeguard the interest of farmers which limits the bargaining power of rice mills over the farmers. Given the fact that prices for finished products is market determined while the cost of raw material is fixed by GoI through the MSP mechanism, the profitability margins remain vulnerable, especially in times of high paddy cultivation.

Foreign exchange risk

KRBL earned around 40% (PY:35%) of its income through exports sales during FY18 and therefore is exposed to foreign exchange fluctuation risk. However, the company has robust foreign exchange risk policies in place and majority of the forex exposure is hedged through forward contracts.

Fragmented nature of industry

The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. There are several small scale operators which are not into end-to-end processing of rice from paddy, instead they merely complete a small fraction of processing and dispose-off semi-processed rice to other big rice millers for further processing.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

CARE's methodology for Manufacturing Companies

CARE's methodology for financial ratios (Non-Financial Sector)

About the Company

KRBL Limited (KRBL) was incorporated in 1993 by Mr. Anil K. Mittal, Mr. Anoop K. Gupta and Mr. Arun K. Gupta. The promoters have been involved into this business since 1889 under the name of Khushi Ram & Behari Lal.

KRBL is one of the largest fully integrated domestic rice players with an installed manufacturing capacity of 195 Metric Tonnes per hour. The company is engaged in the production and marketing of Basmati rice and is

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also engaged in seed development and multiplication and contract farming. Being an integrated player, it also generates value-added by-products like brain oil, de-oiled cakes and uses rice husks for captive power plant.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3146.85	3246.75
PBILDT	649.76	779.51
PAT	401.13	461.80
Overall gearing (times)	0.58	0.55
Interest coverage (times)	11.85	11.26

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	-	700.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	700.00	CARE A1+	-	1)CARE A1+ (26-Dec-17) 2)CARE A1+ (05-Dec-17) 3)CARE A1+ (27-Sep-17)	-	-

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