CARE Ratings

CARE/DRO/RL/2019-20/2703

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

November 22, 2019

Confidential

Dear Sir,

Credit rating for Commercial Paper (CP) issue aggregating Rs. 500 crore[1]

Please refer to our letter no. CARE/DRO/RL/2019-20/2590 dated November 4, 2019 and your request for enhancement of the rating assigned to the CP issue of your company, for a limit of Rs. 500 crore, with a maturity not exceeding one year.

2. The following rating(s) have been reviewed:

Instrument	Amount (Rs. crore)	Rating[2]	Rating Action
Commercial Paper (CP) Issue*	500.00 (enhanced from Rs. 200 crore) **(Rupees Five hundred crore only)**	**CARE A1+; Under Credit Watch with Negative Implications (A One Plus; Under credit watch with negative implications)**	Continues on credit watch with negative implications

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

3. 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 January 21, 2020. Once the CP is placed, the rating is valid for the tenure of such instrument till redemption.

4. 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

5. CARE will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

6. 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-2**. We request you to peruse the

[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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CIN-L67190MH1993PLC071691

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 November 22, 2019 we will proceed on the basis that you have no any comments to offer.

7. 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.
8. 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.
9. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
10. CARE ratings are **not** recommendations to buy, sell, or hold any securities
11. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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

Thanking you,

Yours faithfully,

HKaur

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Encl.: As above

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Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades

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Annexure I

KRBL Limited

Ratings

Facilities	Amount (Rs. crore)	Rating[3]	Rating Action
Commercial Paper*	500.00 (enhanced from Rs. 200 crore)	**CARE A1+; Under Credit Watch with Negative Implications (A One Plus; Under credit watch with negative implications)**	Continues on credit watch with negative implications
Total	**500.00 (Rupees Five hundred crore only)**		

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial paper issue of KRBL Limited (KRBL) continue 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 and diversification in renewable energy segment as an alternate source of revenue. The rating 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.

These rating strengths are however partially offset, by its working capital intensive operations, volatility in raw material prices, vulnerability of trade due to changes in government policies, foreign exchange risk and fragmented nature of the industry.

The rating continues to remain under credit watch with negative implications on account of the attachment of the portion of land and rice mill factory, belonging to the company by the Enforcement Directorate (ED) under Prevention of Money Laundering Act, 2002 (PMLA) in connection with the 'Embraer Deal' case. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Going forward, any further developments on the aforesaid case along with the outcome of the income tax demand order of Rs. 1269.20 crore on account of disallowance of cash purchases of paddy from farmers will be key rating sensitivities. Further, KRBL's ability to profitably scale up its operations amid competitive pressures and changing import policies of key import countries along with effective working capital management shall also be the key rating sensitivities.

Key Rating Sensitivities

Positive Factors

- Any favorable development or outcome arising from the ED attachment of the company's property in connection with the 'Embraer Deal' case

Negative Factors

- Any further developments on the aforesaid case along with the outcome of the income tax demand order of Rs. 1269.20 crore not in favor of KRBL
- Significant debt-funded capex resulting in deterioration of capital structure with overall gearing increasing more than 1.0x on a sustained basis
- Adverse changes in import policies of key importing countries affecting the total operating income of the company

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

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Detailed Description of the Key Rating Driver

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 rice business for more than 100 years. The promoters are assisted by an experienced team of professionals for carrying out the day-to-day operations of the company.

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, Nur Jahan, Bemisal and Unity among others. It has created a strong brand presence through collaborations with global retail chains. In FY19, exports constituted around 45% of KRBL's total operating income.

KRBL over time has built up a strong distributor network both in the domestic and international markets. KRBL has around 500 dealer-distributors all over India and has one distributor per country for its overseas markets, except in the US where it has one distributor for every state and also has strong tie-ups with several domestic retail chains.

Presence across value chain being 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. Further, KRBL is also diversifying its product portfolio by including health foods in their product portfolio.

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 as on March 31, 2019. Out of the total power generated 40% was used for captive consumption.

The diversification into power and renewable energy has not only helped KRBL to become self-sufficient in its captive requirements, but has also emerged as a strong revenue earner for the company.

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 verities. 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 FY19.

Further, the export revenue of the company increased by 42% during FY19 driven by overall increase in the global demand, specifically from Government-backed tenders from Iran.

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Comfortable financial risk profile

The total operating income of the company witnessed a significant growth of 25.72% in FY19 to reach Rs. 4126.59 crore as against Rs. 3289.29 crore in FY18 primarily on account of increase in exports (both in terms of volumes and sales realizations).

Though the price realization increased in FY19, the profitability margins of the company moderated on account of bulk sale deal with relatively lower margins on account of non-branded/private label sales. Further, increasing trend of paddy prices, launch of consumer promotional events to push sales and discounts extended to distributors also impacted the margins.

KRBL has a comfortable solvency position marked by overall gearing of 0.57x as on March 31, 2019. The company has been generating healthy cash accruals over the years 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. Other solvency and coverage indicators of the company also stood comfortable during FY19 such as Total Debt to GCA of 2.67x and interest coverage ratio of 12.69x.

H1FY20 Performance: The total operating income witnessed a growth of 6.10% in H1FY20 vis-à-vis H1FY19 to reach Rs. 2115.74 crore in H1FY20. Further, the PBILDT and PAT margin stood at 19.50% and 11.82% respectively in H1FY20. The overall gearing as on September 30, 2019 was 0.10x primarily on account of lower working capital borrowings. As the industry phenomena, the debt increases with the commencement of procurement of paddy in H2 every year and becomes significantly low by the end of H1 of the next financial year (resulting in near zero debt at the end of H1)

Adequate Liquidity

The liquidity position of the company remains comfortable marked by current ratio of 2.07x as on March 31, 2019 and low utilization of its working capital limits. The average working capital utilization for the 12 months ending June 2019 stood comfortable at 51.13%. The company had cash and bank balance of Rs. 4.21 crore as on March 31, 2019. Further, the healthy cash accruals of the company enable it to fund its working capital as well as any capex requirement. Going forward, with low debt repayment due within next one year, the cash accruals are only expected to strengthen the liquidity further.

Industry Outlook

Currently, domestic basmati rice market is estimated at ~Rs. 13000 crore. The share of basmati as a percentage of total rice consumption in India is extremely low at ~2% as compared to the Middle East (38%). However, the rise in disposable income and premiumization coupled with increasing penetration of basmati is expected to drive the consumption of basmati in India.

India witnessed 13% growth in rice exports in FY19 to reach USD 4723 Bn. Further, Middle East or Gulf Cooperation Council (GCC) is one of the largest basmati market in the world. Out of the total exports from India in FY19, 33% was to Iran, 20% to Saudi Arabia, 8% to Iraq, and 6% to UAE. (Source: Agricultural and Processed Food Products Export Development Authority (APEDA))

In November 2018, the US government-imposed trade sanctions on Iran. However, it granted waivers to eight countries including India, allowing these to continue to import crude oil from Iran. With effect from May 2, 2019, the US government has withdrawn this waiver, leading to uncertainty over India's crude oil imports from the nation. This can in turn affect the exports of commodities, including Basmati rice, to Iran. The country has been a major export destination for Indian Basmati rice and the industry's concentration on the same has only increased in FY19. As a result, any moderation in exports to this market can have a depressing impact on the Basmati rice prices globally. This can impact the profitability of industry participants, especially considering the firming up of prices of the Basmati paddy in the recent times, resulting in industry participants carrying high cost inventory.

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

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and attract premium pricing. Thus the working capital requirement of the business remains high. Further, the sizeable inventory level exposes the company to inventory price risk owing to the volatility in the prices of both Basmati paddy and rice, however cushioned by the brand strength.

Volatility in raw material price

The basmati rice processing industry is an agro-based industry and its main raw material is basmati paddy. Rice is mainly a 'kharif' crop and is cultivated from June-July to September-October and the peak arrival time of crop at major trading centers begins in October. The cost and availability of basmati paddy is impacted by many factors like inadequate irrigational facilities, unfavorable climatic conditions, natural calamities, prevalence of pests, change in crop patterns and farmer's preference for other crops that yield better realization. As the paddy prices have firmed up considerably over the past two procurement seasons, there is 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. However, the risk is mitigated to an extent because of the pricing premium enjoyed by its well-established brands.

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.

Also, the company remains susceptible to changes in import policies of various countries. For example, various markets such as European Union and Saudi Arabia have implemented strict limits as Maximum residue level (MRL) on the usage of certain fungicide (Tricyclazole) by farmers. Though these norms are not India specific, it might have an adverse impact on the exports for domestic players.

Also the recent removal of the waiver of trade sanctions on Iran by the US government can impact the export of basmati rice to the former. As Iran is a leading importer of basmati rice from India, this can depress basmati rice prices, exerting pressure on the profitability of industry participants. However, given that KRBL has a customer base spread across various countries, the risk arising from changes in regulations is diversified to a great extent.

Foreign exchange risk

KRBL earned around 45% of its income through exports sales during FY19 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. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive and limits the pricing flexibility of the industry participants. However, KRBL benefits to an extent on account of its strong brand presence.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for financial ratios (Non-Financial Sector)

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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 (TPH). The company is engaged in the production and marketing of Basmati rice and is also engaged in seed development and multiplication and contact 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.

In July 2019, ED attached assets worth Rs. 15.32 crore belonging to KRBL under Prevention of Money Laundering Act, 2002 (PMLA) in connection with the 'Embraer Deal' case.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3282.29	4126.59
PBILDT	815.30	857.30
PAT	461.79	503.27
Overall gearing (times)	0.56	0.57
Interest coverage (times)	11.83	2.69

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

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	-	-	-	500.00	CARE A1+ (Under Credit watch with Negative Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	500.00	CARE A1+ (Under Credit watch with Negative Implications)	1)CARE A1+ (Under Credit watch with Negative Implications) (06-Sep-19) 2)CARE A1+ (Under Credit watch with Negative Implications) (15-Jul-19)	1)CARE A1+ (27-Sep-18)	1)CARE A1+ (26-Dec-17) 2)CARE A1+ (05-Dec-17) 3)CARE A1+ (27-Sep-17)	-

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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.