RATING RATIONALE

30 Dec 2019

Kalyani Modern Rice Mill

Brickwork Ratings upgrades the long term rating and reaffirms the short term rating for the Bank Loan Facilities of ₹. 20.00 Crores of Kalyani Modern Rice Mill.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Oct, 2018)	Present
Fund Based	14.15	18.00	Long Term	BWR B+/Stable	BWR BB-/Stable (Upgrade)
	3.00	(3.00)	Short Term	BWR A4	BWR A4 (Reaffirm)
Non Fund Based	1.00	2.00			
Total	18.15	20.00	INR Twenty Crores Only		

Note: Moved to Rating Not Reviewed on 14.Oct.2019
*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings has upgraded the long term rating to BWR BB-/Stable and reaffirmed the short term rating to BWR A4 of Kalyani Modern Rice Mill to the bank loan facilities of Rs.20.00 Crs.

The upgradation of the long term ratings has factored the stable growth of the firm in various financial parameters and the long standing presence in the rice industry. The rating, however, is constrained by the low profitability margins, high gearing ratio, working capital intensive nature of operations, exposure to agro climatic risks and highly competitive nature of industry

The ratings have been continued with stable outlook as the business risk profile of the firm is stable and the growth in the business and profitability is expected to be maintained in the medium term.

KEY RATING DRIVERS

BWR principally relied upon audited financials upto FY19, Provisionals till Oct 2019, publicly available information and information/clarification provided by the management.

Credit Strengths:

- Established track record in the business as the firm is active since 1983
- Few partners of the firm have extensive experience in rice milling industry, which has helped them to understand local market dynamics and establish relationships with customers and suppliers which will benefit the firm over the medium term
- Revenue of the firm creased from Rs. 48.47 Crs in FY16 to Rs.54.57 Crs in FY18 and further increased to Rs.55.95 Crs in FY19. On a provisional basis, revenue achieved till Oct 2019 is Rs. 31.69 Crs
- Moderate net-worth reported at Rs. 13.49 Crs in FY19 improved from Rs. 6.43 Crs in FY18
- Moderate interest servicing capability indicated by ISCR which stood at 1.17x in FY19
- The current ratio of the firm as per FY19 (Audited) stands at 2.21 times, which indicates that the firm has enough short term assets to meet it short term liabilities.
- The firm's rice milling unit is located in the East Godavari District, a paddy growing belt of Andhra Pradesh, which ensures easy availability of paddy directly from farmers, making operations cost-effective.

Credit Risks:

- The Indian rice industry is fragmented, with low entry barriers due to limited capital and technology intensity, leading to a highly competitive market..
- Low profitability margins driven by net profit margin at 0.77 % in FY19 and operating profit margin at 5.03% in FY19
- Gearing is on the higher side; however, Total Debt/TNW improved to 2.22x in FY19 from 5.03x in FY18 mainly due to infusion of capital in FY19. Further, analysed Total Debt/TNW ratio is less than its gearing because of significant unsecured loans from friends & family members(~ Rs 13.22 Crs) in FY19, which are adjusted (considering 50% as quasi-equity) while deriving analysed Total Debt/TNW ratio & analysed gearing. The Analysed gearing stood 1.70x & 1.16x for FY18 & FY19 respectively
- The price of paddy (key raw material) is highly volatile as it is dependent on demand-supply scenario, monsoon, and crop cycles. Also, since the cost of procuring paddy accounts for the bulk of the production expense, even a slight variation in price can drastically impact profitability.
- The business entity is a partnership firm and suffers from risks of change in business structure and risks of withdrawal of capital in case of personal exigencies.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of **Kalyani Modern Rice Mill**. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of the firm to further to improve its scale of operations by improving its revenue and profitability margins and efficiently manage industry risk would remain the key rating sensitivities**.**

Positive: The rating outlook may be revised to positive if the firm is able to improve its scale of operations and profitability margin substantially.

Negative: The rating outlook may be revised to 'Negative' in case revenues of the firm substantially deteriorates from current level. Any additional borrowing by the firm may lead to further deterioration in the financial risk profile such as Debt/Equity ratio, debt protection metrics and profit margins.

LIQUIDITY POSITION

The firm has a comfortable liquidity profile, driven by a current ratio of 2.21 times in FY19 and average CC Utilization for the six months as per the banker feedback stands between 80% to 90%.

FIRM PROFILE

Kalyani Modern Rice Mill(KMRM) was established in the year 1983 as a partnership firm by Mr. V Jogeswara Rao and partners, located at East Godavari Dt, Andhra Pradesh. KMRM is involved in rice milling and processing and its products are sold with the brand name 'Kalyani and Panch Kalyani'.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	**Units**	**FY18**	**FY19**
Result Type		**Audited**	**Audited**
Net Sales	Rs In Crores	54.57	55.95
EBITDA	Rs In Crores	2.18	2.81
PAT	Rs In Crores	0.40	0.43
Tangible Net-worth	Rs In Crores	6.43	13.49
Total Debt/Tangible Net-worth	In Times	5.03	2.22
Current Ratio	In Times	2.43	2.21

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY

Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	14.10.2019	11.10.2018	21.9.2017
Fund Based	Long Term	18.00	BWR BB-/Stable (Upgrade)	Rating Not Reviewed	BWR B+/Stable	
	Short Term	(3.00)	BWR A4 (Reaffirmed)		BWR A4	
Non Fund Based		2.00				
Total		**20.00**	**INR Twenty Crores Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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Kalyani Modern Rice Mill

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Andhra Bank	Cash Credit (CC)	18.00		18.00
4		PC/FUBD (sublimit under CC)	-	(3.00)	(3.00)
5		Bank Guarantee (Sublimit under CC)	-	(1.00)	(1.00)
6		FLC (Foreign Letter of Credit)	-	2.00	2.00
TOTAL					**20.00**

Total Rupees Twenty Crores only.

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