



Rating Rationale

Kathpal Solvex Pvt. Ltd.

28 Aug 2019

Brickwork Ratings reaffirms the long term rating and withdraws the short term rating for the Bank Loan Facilities of ₹. 12.00 Crores of Kathpal Solvex Pvt. Ltd. .

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Dec, 2017)	Present
Fund based Cash Credit	12.00	8.50 (Existing) 3.50 (Proposed)	Long Term	BWR B+/Stable	BWR B+/Stable [Reaffirmed]
Fund Based WCDL	3.00	-	Short Term	BWR A4	**Rating Withdrawn
Total	15.00	12.00	INR Twelve Crores only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Complete details of Bank facilities is provided in Annexure-I

** This short term facility has been closed.

Ratings: Reaffirmed

BWR has reaffirmed Long Term Rating of BWR B+ (*Outlook: Stable*) and has withdrawn Short Term Rating of A4 for the bank loan facilities of Kathpal Solvex Pvt Ltd. (or 'the Company')

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials from FY 16 to FY 19, publicly available information and information / clarifications provided by the entity's management. The rating draws strength from the vast business experience of the partners, the proximity of the mill to a major rice-growing area which results in easy availability of paddy and also the stable demand outlook for rice, given that India is a major consumer and exporter of rice. However, the rating is constrained on account of the moderate financial risk profile, intense competition, less value additive nature of the product , and agro-climatic risks.



Going forward, the ability of the entity to increase its scale of operations, improve its gearing ratio, its ISCR , DSCR, improve its profitability margins and manage liquidity would be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced Partners :** The company is managed by the directors, Krishan Lal and Ravi Kumar. Both having wide experience in the rice industry which will be helpful for the company in handling operations in the near future and also establishing healthy relations with their customers and suppliers.. Krishan Lal has around four decades of long experience and Ravi Kumar has a decade long experience.
- **Location advantages :** KSPL is engaged in the processing of paddy and milling of rice. Paddy is procured from local commission agents and wholesalers. The company's processing facility is situated at Fazilka, Punjab. Hence, the company benefits in terms of easy access to quality raw material because of its proximity to raw material suppliers and is also in a position to cut on the freight component.

Credit Risks:

- **Exposure to agro-climatic risks and inventory price risks :** Given its operations in an agro-based industry, the firm is exposed to agro-climatic risks such as abnormal weather conditions impacting produce and unpredictable demand supply conditions and raw material price fluctuations. Agro based industry is characterized by its seasonality, due to its dependence on raw materials whose availability is affected directly by the unpredictable changes in weather. Adverse climatic conditions can affect their availability and leads to volatility in raw material prices. The monsoon has a bearing on crop availability which determines the prevailing rice prices. Further, any sudden spurt in raw material prices may not be passed on to customers completely owing to the firm's presence in highly competitive industry.
- **Intense competition :** The rice industry is highly fragmented and is marked by the presence of numerous large players and small players. Given the low capex and technical complexity of work, the entry barriers have remained low, resulting in a large number of small-to-medium scale enterprises. This intensifies competition and limits the pricing flexibility of the industry participants. Further, paddy prices are regulated by government to safeguard the interest of farmers which in turn limits the bargaining power of the rice millers.
- **Moderate Financial Risk Profile :** The profitability continues to remain moderate due to low



value-added nature of business operations and the stiff competition. The operating profitability stood at 2.01% in FY19 as against 2.58% in FY18 and Net profitability margin in FY19 stood at 0.32% as against 0.47% in FY18 . Further, Debt Equity ratio has improved from 8.80x in FY18 to 5.01x in FY19 majorly on account of decrease in debt from 16.21 cr in FY 18 to 9.74 cr in FY 19. Further ISCR of the company stood at 1.31x in FY 19.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Liquidity

The company has liquid investments including Cash & Cash Equivalents of INR 0.03 cr as on March 31, 2019. Current ratio stood at 1.36x in FY 19 and conversion cycle is at 91 days in FY19. Further, the company has no external long term borrowings. Thus, no portion of current maturity of long term debt is reported as on 31.03.2019. The company has Interest service coverage ratio (ISCR) of 1.31x in FY19. Overall liquidity of the company remain adequate with average cash credit limit utilization of around 65.79% from Dec'18 to May'19 availed from Punjab National Bank .

Rating Outlook: *Stable*

BWR believes the **Kathpal Solvex Pvt. Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Kathpal Solvex Pvt Ltd. (KSPL) is a private limited company incorporated in April 2000. The company is currently managed by Mr. Krishan Lal and Mr. Ravi Kumar. The company is engaged in the rice milling business. Its milling unit is located at Fazilka, Punjab having an installed capacity of 70 tonnes of paddy per day. Paddy is procured from local suppliers and the processed rice is sold to the brokers and agents located in Haryana, Delhi, Gujarat, Jammu & Kashmir, Haryana, West Bengal, Rajasthan etc. The directors of the company have vast experience in this line of business.

Company Financial Performance

As per audited financial results, the company has achieved sales of 50.64 cr and earned PAT of 0.12 cr in FY19 as against sales of 34.61 cr and PAT of 0.12 cr in FY 18.

Key Financial Indicators

Key Parameters	Units	2019	2018
Result Type		Audited	Audited

Operating Revenue	₹ Cr	50.64	34.61
EBITDA	₹ Cr	1.02	0.89
PAT	₹ Cr	0.12	0.12
Tangible Net worth	₹ Cr	1.95	1.84
Total Debt/Tangible Net worth	Times	5.01	8.80
Current Ratio	Times	1.36	1.37

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	21 Dec, 2017	2016
1.	Fund Based Cash Credit	Long Term	8.50(Existing) 3.50 (Proposed)	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable [Reaffirmed]	RNR	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	NA
2.	Fund Based WCDL	Short Term	-	Rating Withdrawn	RNR	BWR A4 (Pronounced as BWR Single A Four)	NA
Total			12.00	INR Twelve crores only			

Status of non-cooperation with previous CRA (if applicable)- Nil
Any other information: Nil

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)



- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.



ANNEXURE-I

Kathpal Solvex Pvt Ltd.

Name of the Bank	Facilities	Rated Amount
Punjab National Bank	Existing Cash Credit	8.50 cr
	Proposed Cash Credit	3.50 cr
	Total	12.00 cr