Rating Rationale

RSG Foods Pvt. Ltd **13 Mar 2018**

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 22.58 Crores of RSG Foods Pvt. Ltd.

Particulars

Facility	Amount (₹ Cr)	Tenure	Rating*
Fund based	**22.58**	**Long Term**	**BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable**
Total	**22.58**	**INR Twenty Two Crores Fifty Eight lakhs Only**	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial results of **RSG Foods Pvt Ltd** up to FY17, projected financials up to FY19, publicly available information and information provided by the management.

The rating assigned to the bank facilities of RSG Foods Pvt Ltd positively factors the promoter's experience of more than a decade in agro processing industry & trading business. However, the ratings are constrained due to working capital intensive nature of operations, stretched liquidity, high gearing levels, susceptibility of margins to fluctuations in raw material prices and presence in a highly fragmented industry characterized by intense competition.

Going forward, the company's ability to increase scale of operations, infuse equity/unsecured loans to reduce gearing level, improve liquidity and efficiently manage its working capital cycle remains the key rating sensitivities.

Description of Key Rating Drivers

Experienced management- RSG has experienced and competent management promoters in the agro processing industry with more than 10 years of business knowledge.

Location Advantage- The area in which unit is set up is a paddy belt and raw material is easily available for processing unit.

Moderate scale of revenue: RSG registered a revenue of Rs.77.83 crore in FY 2017 as compared to Rs.74.04 crore in FY 2016.The firm has registered revenue of Rs.54.36 crore for the period April to Dec 2017.

Low Tangible Net Worth- As per the operation and level of debt the tangible net worth is low at Rs 6.59 Crores**.**

Thin Profitability Margin : Thin Profitability margins indicated by net profit margin of 0.60 % and operating profit margin of 4.78% in FY17.

Leveraged capital structure: The company's capital structure is highly leveraged with gearing of 3.28 times and TOL/TNW of 3.38 times as on March 2017. The company's operations are capital intensive in nature.

Strained liquidity: The liquidity profile remained Stretched & low level of liquidity position as reflected by current ratio of 1.15 times in FY17.

Working capital intensive operations- RSG gross Conversion Cycle stood stretched at 137 days which includes inventory days of 116 and debtor days of 30 in FY 2017 though improved from previous years. This is mainly due to seasonal nature of paddy.

Agro climatic and raw material price fluctuation risks - Paddy is a seasonal crop and its production is highly dependent upon monsoons. Thus, inadequate rainfall may affect the availability of paddy. The firm is exposed to the raw material price fluctuation risk**.**

Competitive and fragmented nature of rice milling business- RSG is basically into milling of paddy. Rice is a highly competitive industry with low entry barriers,characterized by the presence of both organized as well as unorganized players.

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).

Rating Outlook: *Stable*

BWR believes the **RSG Foods 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

RSG was incorporated in November 1999 and is currently being managed by Mr Kamal Kishore and Mr Naresh Kumar. The company is engaged in the processing of paddy, and manufactures and trades in rice,The company processes paddy at its facility in Firozpur, and manufactures and trades in rice. It has installed capacity of 16 tonne per hour.

Company Financial Performance

Company generated total operating income of ₹ 77.83 Crs. in FY17 as compared to Rs.74.04 crs in FY16. Profit after tax of company stood at ₹ 0.47 Crs. in FY17. The tangible net worth of the company stood at Rs. 6.59 Crs. as on 31-3- 2017. On provisional basis, the company has achieved total operating income of Rs. 54.36 crs. for the 9M FY 2018.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
	Fund Based Cash Credit Term Loan	Long Term	22.00 0.58	**BWR BB- Outlook: Stable**	**N.A**	**N.A**	**N.A**
	Total		**22.58**	**₹Twenty Two Crore Fifty Eight Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-N.A
Any other information-N.A

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	77.83	74.04
EBITDA	₹ Cr	2.99	2.90
PAT	₹ Cr	0.47	0.27
Tangible Net worth	₹ Cr	6.59	6.13
Total Debt/Tangible Net worth	Times	3.28	5.67
Current Ratio	Times	1.15	1.18

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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