

## Press Release

### KLA Foods India Limited

June 03, 2020

#### Rating

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	2.50	IVR BBB- / Negative Outlook (IVR Triple B Minus with Negative Outlook)	Assigned
Short term Bank Facilities	17.50	IVR A3(IVR A Three)	Assigned
<b>Total</b>	<b>20.00</b> <b>(Twenty crore only)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating assigned to the bank facilities of KLA Foods India Limited (KFIL) derives comfort from its long track record of operations in food grain industry, low counterparty risk, comfortable capital structure, locational advantage marked by the abundance availability of raw material in the region and marketing & selling through diversified channels. These rating strengths are partially offset by vulnerability of its business to agro-climatic risks, exposure to changes in trade policies and exposure to foreign exchange risk. The outlook remained negative due to impact on logistics support in the export business caused by the impact of covid-19 and margins evolution.

#### Key Rating Sensitivities

##### Upward factors

- Significant improvement in profitability metrics with consistent growth in scale of business thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation
- Improvement in the capital structure

##### Downward factors

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- Dip in operating income and/or profitability impacting the debt coverage indicators and liquidity
- Subdued industry scenario

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Long track record of operations in food grain industry**

KLA Foods Private Limited, incorporated by Mr. Kundan Lal Agarwal in year 2006, having vast experience of over four decades in food grain industry mainly into rice industry backed by the inherited family business of trading of food grains. The Promoters and family is engaged into trading of food grain since 1975, started with the trading of rice in domestic market. Later on, expanded the presence in the international market thorough exports of rice in year 1995. Further, having established relationship with suppliers in the food industry in the international market, the promoters expanded into frozen food segment through incorporation of KLA foods India Limited. KFIL has reported satisfactory performance with total income of Rs. 176.26 crore with PAT of Rs. 1.48 crore in FY20 provisional figures.

##### **Low counterparty risk**

KFIL has client presence in Gulf countries namely Saudi Arabia, Dubai, Qatar and Oman catering to the need of frozen food market. Further, company exports the rice to clients based out of African countries. KFIL deals through trading houses based out of Singapore and Geneva which minimizes the payment risk from the customers. Further, company deals on cash basis or with minimal credit period provided to customers leading to secure payment mechanism.

##### **Comfortable capital structure**

Capital structure of the comprised of only working capital limits and modest amount of unsecured loans infused by promoters and relatives. Infomerics has considered the amount of unsecured loans as neither debt nor equity. Capital structure stood comfortable as on March 31,2019 marked by

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comfortable gearing ratio at 1.20x and TOL/ TNW at 1.56x. Comfortable gearing of the company indicates buffer for the additional borrowing to meet working capital requirements.

### **Location advantage marked by the abundance availability of raw material in the region**

KFIL's plant is located in Rudrapur, Uttarakhand, region is enriched with the natural resources. KFIL procures the raw material form the local market of Rudrapur and nearby areas. Being in the region with the rich natural resources and favorable climatic conditions for vegetation, KFIL also engages with farmers in end-to-end process from seeding to cultivation of crops leading to quality control of the vegetables.

### **Marketing and Selling through diversified channels**

KFIL derives its revenues majorly though exports backed by the established relationship with international buyers and suppliers having strong distribution network across the globe. KFIL sells its products in domestic market through wholesale dealers based out of respective states, company also has its own retail outlets in Rudrapur to meet demand of local people.

### **Key Weaknesses**

#### **Vulnerability to agro-climatic risks**

As vegetable is an agricultural commodity, the company is exposed to agro-climatic risks. There is risk of adequate availability of vegetables as the vegetable quality is prone to erratic weather conditions (such as drought, pest attack, heavy rainfall, delay in monsoon, etc.).

#### **Exposure to changes in trade policies**

The company is exposed to changes in the trade policies of key importing countries, which can impact the export revenues. The tightening of pesticide residue parameters and other quality check parameters might lead to a decline in exports.

#### **Exposure to foreign exchange risk**

As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of unhedged exposure. However, company enters into forward

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contract to hedge its currency exposure to minimize the impact of fluctuation in foreign exchange rates. KFIL has reported unhedged position of forex exposure as nil as on March 31, 2020.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

**Liquidity: Adequate**

The liquidity position of the company is adequate marked by its adequate expected gross cash accruals subject to achieving of its projected profitability against its modest interest payment obligations. Further, company has working capital intensive nature of business leading to modest requirement of working capital limits. KFIL reported its working capital utilization at 70% for the past 12 months ended at March -2020, indicating buffer capacity to meet incremental working capital requirement. Further, company comfortable capital structure also imparts comfort for additional borrowing to support the business.

**About the Company**

Incorporated in year 2006, KLA Foods India Limited (KFIL) is engaged into processing of frozen foods and rice trading. KFIL is founded by Mr. Kundan Lal Agarwal having experience of over four decades in food grain industry majorly into rice industry. KFIL is based out of Rudrapur, Uttarakhand and has its food processing plant with operating capacity of 2000 MT/ year, however capacity is subject to the type of the vegetable processed.

**Financials (Standalone):**

**(Rs. crore)**

<b>For the year ended*</b>	<b>31-03-2018</b>	<b>31-03-2019</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	94.07	177.19
EBITDA	2.60	2.97

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For the year ended*	31-03-2018	31-03-2019
PAT	0.97	0.99
Total Debt	9.97	17.12
Tangible Net worth	13.48	14.24
EBITDA Margin (%)	2.74	1.67
PAT Margin (%)	1.03	0.55
Overall Gearing Ratio (x)	0.74	1.20

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Issuer not cooperating by Brickwork Ratings, vide press release dated June 26, 2018 due to non-availability of information.

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	2.50	IVR BBB- / Negative	-	-	-
2.	EPC/PCFC	Short Term	17.50	IVR A3			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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**About Infomerics:**

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Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	2.50	IVR BBB- / Negative
Short Term Bank Facilities- EPC/PCFC	-	-	-	17.50	IVR A3