KOTHARI FERMENTATION AND BIOCHEM LTD.

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Web : www.kothariyeast.in CIN : L72411DL1990PLC042502

9/11/2019

To,
The Manager- Listing,
The Bombay Stock Exchange Limited,
Phiroz Jeejeebhoy Towers,
25th Floor, Dalal Street,
Mumbai-400001

Scrip Code: 507474

Subject: Intimation under regulation 30 of SEBI (LODR) regulations, 2015-Credit Rating

Sir,

Pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015, we wish to state that Acuite Ratings and Research Limited, erstwhile known as SMERA Rating Limited, has reaffirmed the credit Ratings to the bank facilities as under:

Total Bank Loan facilities Rated: Rs. 35 Crores
Long-term Rating: ACUITE BBB /Stable reaffirmed
Short-term Rating: ACUITE A3+ reaffirmed

Rating letter is enclosed. Kindly take the same in your record.

Thanking You
Yours faithfully
For **Kothari Fermentation and Biochem Limited**

Kavita

Kavita Tanwar
Company Secretary

Encl: a/a

Press Release

Kothari Fermentation & Biochem Limited

October 24, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+(Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 35.00 Cr. bank facilities of Kothari Fermentation & Biochem Ltd .The outlook is **'Stable'**.

Incorporated in 1990, Kothari Fermentation & Biochem Limited (KFBL) is an Uttar Pradesh based company promoted by Mr. Moti Lal Kothari (Chairman). Currently the operations are managed by his son, Mr. Pramod Kothari (Managing Director). The company is engaged in the manufacturing of yeast and its derivatives (Fresh Yeast, Active Dried Yeast, Instant Dried Yeast, Live Yeast & Yeast Extract Powder) used in food products, alcohol fermentation and pharmaceuticals industry with an installed capacity of 25000 metric ton per annum (MTPA). The company sells its product under the brand 'Sunrise'.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KFBL to arrive at the rating.

Key Rating Drivers:

Strengths

- **Experienced management & Long track record of operation**
  The company has a long track of over 28 years in the food processing industry. The company is promoted by Mr. Moti Lal Kothari (Chairman). Currently, the day-to-day operations are handled by his son, Mr. Pramod Kothari (Managing Director) who has an experience of over two decades. Acuité believes that the promoters' extensive experience has helped the company to establish long term relations with customers and suppliers and the same is reflected in steady growth in the scale of operations.

- **Comfortable financial risk profile**
  The company's financial risk profile is comfortable marked by modest net worth, comfortable gearing and debt protection metrics. The tangible net worth of the company improved to Rs.48.02 crore in FY2019 as against Rs. 39.27 crore in FY2018 due to accretion of profits to reserves. The gearing stood at 0.48 times as on 31 March, 2019 as against 0.41 times as on 31 March 2018. The total debt of Rs. 23.27 crore consists of term loan of Rs.17.03 crore, short term borrowings of Rs.4.5 crore and unsecured loan of Rs.1.75 crore in FY2018. Moreover, the debt protection metrics is comfortable marked by interest coverage ratio (ICR) of 10.53 times in FY2019 as against 7.24 times in FY2018. Debt service coverage ratio (DSCR) stood at 4.65 times in FY2019 as against 3.06 times in FY2018. Net Cash Accruals/ Total Debt (NCA/TD) stood at 0.53 times in FY2019 as against 0.52 times in FY2018. Acuité believes the financial risk profile of the company to improve backed by healthy net cash accruals.

- **Healthy operating margins and profitability**
  KFBL has consistently shown improvement in their profitability. The company's operating margins have increased to 18.46 per cent in FY2019 as compared to 13.55 percent in FY2018. The increase in operating margin is due to decline in the cost price of their main raw material i.e,

molasses. Cost of raw materials stood at 29.68 per cent of revenues in FY2019 as compared to 41.84 per cent of revenues in FY2018. PAT margin increased to 9.05 per cent as compared to 6.12 per cent in FY 2018.

Weaknesses

- **Modest scale of operations**
  The company has achieved modest revenues of Rs 96.21 crore in FY 2019 as compared to revenues of Rs. 87.70 crore in FY18, marking a y-o-y growth of 9.7 per cent. The growth in top line is on account of improved capacity utilization and volume growth driven by demand for yeasts. Moreover, the company has achieved revenues of Rs 35.50 crore till Aug, 2019 (Provisional).

- **Susceptibility of operating margins to volatility in price of key raw material**
  The key raw material i.e. molasses which comes from sugar cane is a highly seasonal product. There is a high fluctuation in the prices of sugarcane during peak and non-peak season. Thus KFBL is exposed to price risk because of volatility in raw material prices. The industry is highly dependent on availability of raw material and production of sugar cane.

Rating Sensitivity

- The company's ability to improve its scale of operations while maintaining profitability remain key rating sensitivities.

Material Covenants

None

Liquidity Profile

The company's liquidity is adequate marked by moderate net cash accruals of Rs.12.36 crore in FY2019 as against long term debt repayment of Rs.1.33 crore over the same period. The working capital cycle is efficient marked by Gross Current Assets (GCA) of 75 days in FY2019 as against 61 days in FY2018. The current ratio stood at 1.08 times as on March 31, 2019 and the fund based limit remains utilised at 86 percent over the six months ended July 2019. The company maintains unencumbered cash and bank balances of Rs.0.75 crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its experienced management and strong business risk profile. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in revenue and profitability margins leading to a substantial increase in cash accrual. Conversely, the outlook maybe revised to 'Negative' in case of decline in revenue and profitability or deterioration in the financial risk profile on account of higher than expected working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	96.21	87.70	79.10
EBITDA	Rs. Cr.	17.76	11.88	8.81
PAT	Rs. Cr.	8.71	5.36	3.15
EBITDA Margin	(%)	18.46	13.55	11.13
PAT Margin	(%)	9.05	6.12	3.98
ROCE	(%)	21.40	15.69	22.86
Total Debt/Tangible Net Worth	Times	0.48	0.41	0.54
PBDIT/Interest	Times	10.53	7.24	5.82
Total Debt/PBDIT	Times	1.30	1.35	2.07

Gross Current Assets (Days)	Days	75	61	79

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition- https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-4.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Sep-2018	Term Loan	Long Term	22.57	ACUITE BBB/ Stable (Upgraded)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Upgraded)
	Bank Guarantee	Short Term	3.00	ACUITE A3+ (Upgraded)
	Proposed Bank Facility	Long Term	4.43	ACUITE BBB/Stable (Upgraded)
23-Sep-2017	Term Loan	Long Term	12.39	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long term	7.5	ACUITE BBB- /Stable (Assigned)
	Bank Guarantee	Short Term	1.85	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	8.26	ACUITE BBB- /Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	25.57	ACUITE BBB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.43	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Reaffirmed)