



Press Release

Rustam Foods Private Limited (RFPL)

March 12, 2021

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	2.37	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	22.63	IVR A2 (IVR A Two)	Assigned
Total	25.00 (Twenty-Five Crore)		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the Rustam Foods Private Limited (RFPL) derives comfort from its Established track record of operations and longstanding experience of the promoters, Strategic location, and Comfortable financial risk profile. However, these rating strengths are partially offset by Inherent business risks and regulatory risk, Highly competitive and fragmented industry and Exposure to foreign exchange risk.

Key Rating Sensitivities:

Upward Factors

- Growth in operating income with improvement in margins leading to improvement in cash accruals on a sustained basis.
- Improvement in capital structure and debt protection metrics.
- Improvement in working capital management with utilisation of bank borrowings to remain below current levels on a sustained basis.

Downward Factors

- Dip in operating income and/or profitability affecting the company's financial performance and liquidity position.



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- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations and longstanding experience of the promoters

RFPL incorporated in 2006, has an established operational track record in the meat processing industry. The company is promoted by Mr. Mohammad Saleem, He is the managing director in the company and has an extensive experience of more than three decades in the meat processing industry. The company's experienced promoters and long established track record has helped to build healthy relationship with its customers and suppliers.

Strategic location

The plants are located at Unnao & Bareilly in Uttar Pradesh, which have sizeable buffalo population in India, thereby ensuring easy availability of quality raw material.

Comfortable financial risk

The financial risk profile of the company remained comfortable marked by improvement in gearing to 1.77x as on March 31, 2020 as against 2.17x as on March 31, 2019. Interest coverage ratio stood healthy at 3.86x in FY20. DSCR also stood comfortable at 2.28x in FY20 as against 2.02x in FY19.



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Key Rating Weaknesses

Inherent business risks and regulatory risk

The business is exposed to significant challenges such as disease outbreaks in cattle population. Also, the industry is socially and politically sensitive in the country. Factors such as these can impact the availability and processing of buffalo meat. Moreover, as the company earns a major share of its revenue from the export market, the profitability remains exposed to risk of any adverse regulatory development in the importing country.

Highly competitive and fragmented industry

The buffalo meat processing industry is highly fragmented and competitive because of the presence of large organised players and numerous mid-sized players. The competition is further aggravated by exports from other major meat-exporting countries such as Brazil and Australia. This keeps the pricing flexibility of the industry participants in check and limits profitability.

Exposure to foreign exchange risk

RFPL's ~80% revenue generated from export sales to countries like Middle East, Vietnam, Thailand, Hong Kong, etc. Given that most of the revenues are contributed by exports, RFPL is exposed to foreign currency exchange risk on its exports receivables. However, to minimise the risk company enters into derivative contracts to hedge its foreign currency exposure. The unhedged foreign currency exposure as March 31, 2020 is Nil.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)



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Liquidity – Adequate

The company had generated healthy cash accrual of around Rs.22.38 crore in FY20 as against minimal repayment obligation of around Rs.2.76 crore. Further, the company is also expected to generate steady cash accrual over the near medium term against minimal repayment obligation. Moreover, the Company's average utilisation of its bank lines was moderate, at around 86 per cent over the 10 months ended November, 2020.

About the Company

Rustam Foods Private Limited (RFPL) incorporated in 2006 as a private limited company is based in Unnao, Uttar Pradesh. The company is a DGFT certified three-star export house and engaged in the business of processing of frozen boneless buffalo meat. RFPL has an APEDA registered integrated abattoir and meat processing plant in U.P. RFPL's product range includes Indian Halal Frozen Boneless Buffalo Meat and Offal, Animal Fat Oil, Poultry Feed Supplement, Buffalo Horns & Hooves etc.

Financials (Standalone):

(Rs. Crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	1,433.14	1,325.91
EBITDA	35.64	37.52
PAT	15.19	16.81
Total Debt	155.05	157.62
Tangible Net worth	71.31	88.81
EBITDA Margin (%)	2.49	2.83
PAT Margin (%0	1.06	1.27
Overall Gearing Ratio (x)	2.17	1.77

*as per Infomerics standard

Status of non-cooperation with previous CRA: N/A



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Any other information: N/A

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (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.	Term Loan	Long Term	2.37	IVR BBB+/Stable	-	-	-
2.	EPC/PCFC/FBP/FBD/AABSUC combined limit	Short Term	20.82	IVR A2	-	-	-
3.	Derivatives/FC/C EL	Short Term	1.81	IVR A2	-	-	-

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.

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About Infomerics:

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 Fund Based Bank Facility – Term Loan	-	-	July, 2022	1.19	IVR BBB+/Stable
Long Term Fund Based Bank Facility – Term Loan	-	-	June, 2022	1.18	IVR BBB+/Stable
Short Term Fund Based Bank Facility - EPC/PCFC/FBP/FB D/AABSUC combined limit	-	-	-	20.82	IVR A2
Short Term Non - Fund Based Bank Facility - Derivatives/FC/CEL	-	-	-	1.81	IVR A2