



Press Release

Lekh Raj Narinder Kumar

April 29th, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	2.00	IVR BB+; Stable (IVR double B plus with stable outlook)	Assigned	Simple
Short Term Bank Facilities	140.00	IVR A4+ (IVR A four plus)	Assigned	Simple
Total	142.00	(Rupees one hundred and forty-two crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long term rating of IVR BB+ with a Stable outlook and short-term rating of IVR A4+ for the bank loan facilities of Lekh Raj Narinder Kumar.

The rating assigned to the bank facilities of Lekh Raj Narinder Kumar draws comfort from experienced management and improved scale of operations. The rating also takes into consideration the locational benefit of being in the rice growing belt in Haryana and healthy order book position for the firm. However, these rating strengths are partially offset by fragmented and intensely competitive nature of the industry leading to thin profit margins, moderate capital structure and debt protection metrics. The ratings further remain constrained by susceptibility to changes in government regulations and elongated operating cycle.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes that Lekh Raj Narinder Kumar will continue to benefit from its operational track record in the business and regular inflow of orders.



Press Release

IVR has principally relied on the standalone audited financial results of Lekh Raj Narinder Kumar up to 31 March 2023 and projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the firm's management.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with sustenance of profitability margins thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management

Lekh Raj Narinder Kumar is managed by experienced partners who have more than 20 years of experience in this industry. Further, the longstanding presence of the partners in the industry has helped the firm to establish strong relationships with customers and suppliers, move in line with the industry trends, which eventually helped the firm to grow.

Improved Scale of Operations

The firm's Total Operating Income increased by 6% to Rs. 573.49 crore in FY23 (Audited) as against Rs. 542.19 crore in FY22.

EBITDA improved significantly to Rs. 21.48 Crore in FY23 as against Rs. 17.29 Crore in FY22. The EBITDA margin improved by 56 bps from 3.19% in FY22 to 3.75% in FY23, the operating margin improved because of higher margins earned on traded goods.



Press Release

PAT of the company also improved from Rs. 3.28 Crore in FY22 to Rs. 3.49 Crore in FY23. PAT margin remained almost same and stood at 0.60% in FY22, and 0.61% in FY23. The GCA improved to Rs.5.72 Crore in FY23 from Rs.5.60 Crore in FY22.

Geographical locational advantage

The firm's processing facility is situated in Kaithal, Haryana, which is close to paddy- growing areas. The firm's presence in this region gives an advantage in terms of easy availability of the raw material in timely manner.

Healthy Order Book

The total unexecuted order book as on February 2024 is Rs. 335.00 Cr. which is 58% of the total revenue of FY23, and the execution period is 4-5 months.

Key Rating Weaknesses

Fragmented nature of the industry leading to thin profit margins

The rice-milling sector is marked by fierce competition, primarily attributed to minimal value addition and consequently low barriers to entry. This situation restricts the pricing flexibility for players in the industry, including Lekh Raj Narinder Kumar.

Moderate capital structure and debt protection metrics

The TNW improved from Rs. 32.84 Crore as on March 31, 2022, to Rs. 36.98 Crore as on March 31, 2023, due to accretion of profits to reserves. The overall gearing of the firm stood moderately leveraged at 4.69x as on March 31, 2023, against 4.53x as on March 31, 2022. This moderated because of the increase in bank borrowings utilised by the firm. TOL/TNW also moderated and stood at 6.30x as on March 31st, 2023, against 5.67x as on March 31st, 2022. This moderated because of the increase in creditors.

The debt protection indicators marked by Interest coverage ratio moderated and stood at 1.45x in FY2023 as against 1.56x in FY2022. DSCR also moderated and stood at 1.36x in FY2023 as against 1.46x in FY2022.



Press Release

Susceptibility to changes in Government regulations and agro climatic risks

The profitability of a rice mill is significantly influenced by the minimum support price of paddy and the current market price of rice. Further as an agricultural commodity, the availability of paddy is subject to seasonality and relies on factors such as monsoon and irrigation. This exposes the firm to the risk of insufficient raw material supply during unfavourable climatic conditions, resulting in fluctuations in both paddy and rice prices. Additionally, the firm faces challenges in fully passing on any cost increase to customers, further complicating its financial stability.

Elongated Operating Cycle

In FY23, the company's operating cycle extends to 115 days (compared to 106 days in the previous year). The significant factor contributing to this elongation is the increase in inventory days, which stood at 106 days in FY23. In the same period, collection period stood at 37 days in FY23 as compared to 31 days in FY22, and the creditors period stood at 29 days in FY23 as compared to 24 days in FY22.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for rating outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Instrument/ Facility wise default recognition & Post- Default Curing Period](#)



Press Release

Liquidity – Adequate

Lekh Raj Narinder Kumar's liquidity position is adequate marked by gross cash accruals of Rs.5.72 crore as against Rs.0.44 crore of repayment obligation in FY2023. The firm has a current ratio of 1.19x as of March 31, 2023. Operating cycle of the company stood at 115 days as on March 31st, 2023, against 106 days as on March 31st, 2022. The unencumbered cash and bank balance as on March 31, 2023, stood at Rs. 0.05 Crore.

About the Firm

Established in 1974 Lekh Raj Narinder Kumar (LRNK) is engaged in processing and exporting of different varieties of rice. They have been into the business of rice exports for 40 years. Mr. Narinder Miglani plays an important role in the business. Its processing unit is in Kaithal, Haryana. The firm exports 90% of its produce and sells the rest in the domestic market. The firm is in the process of conversion to a private limited company and the same is expected to be completed in FY2025.

Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	542.19	573.49
EBITDA	17.29	21.48
PAT	3.28	3.49
Total Debt	148.75	173.24
Tangible Net Worth	32.84	36.98
Ratios		
EBITDA Margin (%)	3.19	3.75
PAT Margin (%)	0.60	0.61
Overall Gearing Ratio (x)	4.53	4.69

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable



Press Release

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022
1.	Cash Credit	Long Term	2.00	IVR BB+/Stable	--	--	--
2.	Warehouse finance	Short Term	5.00	IVR A4+	--	--	--
3.	Warehouse finance	Short Term	40.00	IVR A4+	--	--	--
4.	Pre shipment packing credit	Short Term	80.00	IVR A4+	--	--	--
5.	Post shipment packing credit	Short Term	15.00	IVR A4+	--	--	--



Press Release

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI). Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks. Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Press Release

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	2.00	IVR BB+/ Stable
Warehouse finance	-	-	-	5.00	IVR A4+
Warehouse finance	-	-	-	40.00	IVR A4+
Pre shipment packing credit	-	-	-	80.00	IVR A4+
Post shipment packing credit	-	-	-	15.00	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Lekh-Raj-apr24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.