Press Release

Uttam Chand Rakesh Kumar

September 05, 2023

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	82.00	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned	Simple
Total	**82.00 (Rs. Eighty Two Crore Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Uttam Chand Rakesh Kumar (UCRK) derives comfort from the experienced management, healthy operating performance in FY23 despite fall in revenues, and healthy expectation of demand growth across India for dry fruits. These rating strengths are, however, constrained by the leveraged capital structure of the firm with modest coverage ratios, volatility in prices of dry fruits, risks associated with the partnership constitution of the Firm, and high competitive intensity.

Key Rating Sensitivities:

Upward Factors

- Scale up of operations leading to improved profits and cash accruals.
- Reduction in leverage by bringing down cash credit usage steadily.

Downward Factors

- Steady increase in operating cycle.
- Any abrupt volatility in supply of dry fruits from international markets and/or volatility in purchase and/or selling prices of dry fruits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Management**

Uttam Chand Rakesh Kumar (UCRK) was started in 2008 as a partnership firm by Mr. Rakesh Kumar Bhatia, Mr Motilal Bhatia (father of Rakesh Bhatia) and Mr. Akshay Bhatia (son of Rakesh Bhatia) . In 2013, Mr. Motilal Bhatia passed away and his share was passed on to Mr. Rakesh Bhatia. Before forming the partnership firm, Mr. Rakesh Kumar Bhatia was actively engaged with his father in the trading of dry fruits for multiple decades. This experience has been handy for Mr. Rakesh Kumar Bhatia to steer the Firm through various ups and downs smoothly.

- **Healthy operating performance in FY23 despite fall in revenues**

The operating income of the Firm decreased by ~26% YoY between FY22 and FY23 (TOI was INR530.07 crore in FY22 and INR390.16 crore in FY23). That was primarily because of sharp fall in price of almonds in the wholesale market. The EBITDA in absolute term, however, increased by ~38% from INR5.84 crore in FY22 to INR8.05 crore in FY23, primarily because of increased reduction in purchase price of almonds compared to its selling price in FY23. Owing to similar level of depreciation and higher interest cost in FY23 compared to FY22, PAT increased by ~29% YoY from INR0.66 crore in FY22 to INR0.88 crore in FY23. The gross cash accruals (GCA) of the Firm improved from INR0.77 crore in FY22 to INR0.97 crore in FY23. The EBITDA margin increased from 1.10% in FY22 to 2.06% in FY23, the PAT margin increased from 0.13% in FY22 to 0.23% in FY23.

- **Healthy expectation of demand growth across India for dry fruits**

The rising trend of consumption of dry fruits across middle-class and upper middle-class households in India bodes well for the Firm. Gone are the days when dry fruits were considered as a luxury item and was savoured mostly by the affluent class. India's dry fruit market has been experiencing impressive growth, with a steady 10-12 percent compounded annual growth rate (CAGR) even before the pandemic. However, the post-pandemic period has witnessed a surge in demand for healthy snacking options, leading to increased interest in the market. India ranks second in terms of consumption for popular dry fruits like peanuts, almonds, and cashews. The country holds the third position for raisins, fourth for dried figs, sixth for walnuts, and seventh for dates. These statistics demonstrate the significant appetite for dry fruits among Indian consumers, which would obviously impact UCRK favourably.

Key Rating Weaknesses

- **Leveraged capital structure with modest coverage ratios**

The total debt of the Firm increased from INR70.96 crore on March 31,2022 to INR87.80 crore on March 31, 2023 – that was primarily attributable to increase in cash credit usage, which increased from INR54.23 crore on March 31,2022 to INR71.89 crore on March 31, 2023. While the long term debt equity ratio on tangible net worth improved from 1.56x on March 31, 2022 to 1.34x on March 31, 2023, the overall gearing ratio, however, deteriorated from 6.61x on March 31, 2022 to 7.40x on March 31, 2023. The interest coverage ratio slightly deteriorated from 1.13x in FY22 to 1.11x in FY23. The DSCR also deteriorated slightly from 1.15x in FY22 to 1.11x in FY23 while the TOL/TNW deteriorated from 7.82x on March 31, 2022 to 8.35x on March 31, 2023. As can be observed, the Overall Gearing Ratio indicates the highly leveraged capital structure of the Firm and the TOL/TNW indicates the high level of total indebtedness in the Firm.

- **Volatility in prices of dry fruits**

The volatility in purchase prices and selling prices of dry fruits is a major worrying sign for dry fruits traders including UCRK. Volatility in prices of dry fruits can have a negative impact on the topline and bottomline of all these traders particularly when prices drop sharply. Further, all these players are purely into trading with no value addition whatsoever. Because of these two reasons, margins of all players including UCRK are very thin and the only way to make sizeable profits is through boosting scale of operations along with controlling operating costs.

- **Risks associated with the partnership constitution**

Given UCRK's constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the Firm upon the death, retirement, or insolvency of partners.

- **High competitive intensity**

UCRK is present in an industry, which has a large number of players, mostly in the unorganised sector spread across the country. This creates a very high competitive intensity, putting pressure on wholesale prices and profit margins of the players including UCRK. As a result of the low pricing power, the only way to make sizeable profits is by increasing the scale of operations and controlling costs.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Trading Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Criteria of assigning rating outlook

Liquidity – Stretched

The firm had a comfortable current ratio of 1.26x as on March 31, 2023. Current ratio is expected to remain around 1.22x between March 31, 2024 and March 31, 2026. However, the DSCR stood low and shows a stretched liquidity position. The gross current assets was high at 93 days in FY23, it is expected to remain at similar levels during FY24-26, leading to high average utilisation of fund based working capital limits at around 91% between August 2022 and July 2023. No capex is planned for FY24, FY25, and FY26 which gives some liquidity cushion. Cash and Bank balance along with free FD balance as on 31.03.2023 was INR 2.77 crore.

About the Firm

Uttam Chand Rakesh Kumar (UCRK) was started in 2008 as a partnership firm by Mr. Rakesh Kumar Bhatia, Mr Motilal Bhatia (father of Rakesh Bhatia) and Mr. Akshay Bhatia (son of Rakesh Bhatia) . In 2013, Mr. Motilal Bhatia passed away and his share was passed on to Mr. Rakesh Bhatia. Before forming the partnership firm, Mr. Rakesh Kumar Bhatia was actively engaged with his father in the trading of dry fruits for multiple decades. The partnership firm is engaged in the trading of dry fruits and spices, viz., cloves, poppy seeds, cumin seeds, etc. It imports the dry fruits from USA, UAE, Turkey, Australia, etc., and sells those in India to wholesalers spread across the country.

Financials (Standalone):

(Rs in Crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	530.07	390.16
EBITDA	5.84	8.05
PAT	0.68	0.88
Total Debt	70.96	87.80
Tangible Net worth	10.74	11.87
EBITDA Margin (%)	1.10	2.06
PAT Margin (%)	0.13	0.23
Overall Gearing ratio (X)	6.61	7.40

Classification as per Infomerics standards

Status of non-cooperation with previous CRA: As per PR dated March 21, 2023, CRISIL continued to keep the ratings in the non-cooperating category due to non-cooperation from the client. As per PR dated September 15, 2022, ACUITE continued to keep the ratings in the non-cooperating category due to non-cooperation from the client. As per PR dated March 31, 2023, Brickwork rating had migrated the ratings to 'Issuer Not Cooperating' category due to non-cooperation from the client.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit Limits	Long Term	77.50	IVR BB/ Stable	-	-	-
2.	GECLs	Long Term	4.50	IVR BB/ Stable	-	-	-

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About Infomerics Ratings:

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).

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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
Cash Credit 1	-	-	-	15.00	IVR BB/ Stable
Cash Credit 2	-	-	-	25.00	IVR BB/ Stable
Cash Credit 3	-	-	-	37.50	IVR BB/ Stable

GECL 1	-	-	January 2025	3.00	IVR BB/ Stable
GECL 2	-	-	December 2027	1.50	IVR BB/ Stable

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-UttamChand-sep23.pdf

Annexure 4: Detailed explanation of covenants of the rated 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.