

Press Release**M/s. Karnal Food Pack Cluster Limited****October 04, 2018****Rating**

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned	Rating Action
1	Long Term Debt-Term Loan	8.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	8.00		

Details of Facilities are in Annexure I**Detailed Rationale**

The aforesaid ratings derive comfort from its experienced and resourceful promoters, receipt of regulatory approvals, equity infusion and tie up of debt, comfortable capital structure and locational advantage of the food park. The ratings are however constrained by project execution risk, offtake risk, susceptibility to fluctuation in raw material prices and government policies, competitive and fragmented food processing industry and delays in receipt of security deposit from sub-lessees. Commencement of business without cost and time overrun, timely receipt of grant and post implementation full tie up for utilization of infrastructure created in the project are the key rating sensitivities.

List of Key Rating Drivers

- Experienced and resourceful promoters
- Receipt of regulatory approvals
- Equity infusion and tie-up of debt
- Comfortable capital structure
- Locational advantage of the food park
- Project execution risk
- Offtake risk
- Susceptibility to fluctuation in raw material prices and Government policies
- Competitive and fragmented food processing industry
- Delays in receipt of security deposit from sub-lessees

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced and resourceful promoters

KFPCL is majorly promoted by members of the Bharti family, Mr. Vinay Taneja and Mr. Virender Dhingra. Promoters have prior experience in food processing and packaging industry through their group companies.

Regulatory approvals in place

The company has acquired land measuring 12.06 acres on a 99 year lease and also taken its possession. Final approval by Ministry of Food Processing Industries (MoFPI) was received in June 2018. Statutory clearances from pollution control board, forest dept. and district town planning dept., etc. have also been received.

Equity infusion and tie-up of debt

The networth of the company has increased from Rs.15.05 crore as on March 31, 2018 to Rs.16.74 crore (as on September 20, 2018), primarily on account of equity infusion by promoters. Further, the term debt required for the project has also been approved by Corporation Bank.

Comfortable capital structure

Post completion, the capital structure for the company is expected to remain comfortable with a debt equity ratio (excluding the govt. grant) of 0.53:1.

Locational advantages

The food park has easy connectivity by rail and road. Also the site is in the heart of agricultural hinterland of Karnal (Haryana) and surrounded by many villages which are rich in terms of agricultural productivity. These villages will serve as catchment areas for procurement of raw materials for the central cluster processing centre as well as for food processing units.

Key Rating Weaknesses:

Project execution risk

The company proposes to set up a food park at Karnal, Haryana, at a total estimated cost of Rs.32.97 crore. The size of the project is considerable as compared to the previous ventures of the promoters. Successful commissioning of the same and lease/sale of the remaining area post implementation are critical to the viability of the project.

Offtake risk

Of the total areas to be sub-leased/sold, approximately 66.62% has been sub-leased/sold by the company. However, even if the entire land is not sub-leased, the company can operate its IQF and deep chambers post commissioning of the plant. About 50% capacity of the IQF is proposed to be reserved for job work to be done for third parties which provides some comfort.

Susceptibility to fluctuation in raw material prices and Government policies

The company may be exposed to volatile raw material prices on account of vagaries of nature. Also, fluctuation in market prices in the form of increase in Minimum Support Price by GOI may impact the procurement costs and thus the margins of agro processing companies.

Competitive and fragmented industry

The agro foods processing and trading industry is highly fragmented, characterized by presence of large number of small players competing with few organised players. The entry barriers are low in this industry. The fragmented nature of the industry along with the intense competition may put pressure on the company's operating profitability.

Delays in receipt of security deposit from sub-lessees

KFPCL is required to pay Rs.21 crore as security deposit, in respect of the land taken on lease. The company had projected to fund the same primarily through receipt of security deposit from sub-lessees. However, there have been delays in receipt of the same.

Analytical Approach & Applicable Criteria

Rating Methodology for Infrastructure companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

Karnal Food Pack Cluster Ltd (KFPCL) was incorporated in 2015. The promoters of the company are members of Bharti family, Mr. Virender Dhingra and Mr. Vinay Taneja. Mr. Pankaj Bharti is the managing director of the company. The company is in the process of construction of a food park at Karnal in Haryana, for which final approval by MoFPI was received in June 2018. The 12.06 acre land on which the food park is being built is owned by the promoters and has been taken on 99 year lease by KFPCL. Out of total area of the food

park, area of around 8.03 acres is proposed to be given on sub-lease/for sale, and remaining 4.03 acre will be used by the company for 'Individual Quick Freezing' (IQF), deep freezers and other common facilities like admin block, roads, sewage treatment plant etc. The company proposes to complete the project by November 2019 and has already spent around Rs.3.16 crore on the same. The revenues from the project are expected to accrue FY21 onwards. The project loan has been sanctioned by Corporation Bank.

Financials (Standalone):
(Rs. crore)

For the year ended/ As on	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	0.34	1.00
EBITDA	0.06	0.49
PAT	0.03	0.25
Total Debt	0.00	0.05
Tangible Networth	12.56	15.05
<u>Ratios</u>		
EBITDA Margin (%)	17.27	49.00
PAT Margin (%)	8.16	25.26
Overall Gearing Ratio (x)	0.00	0.00

Note: Classification as per Infomerics' standards

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

Any other information: N.A

Disclosure:

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Term Loan	Long Term	8.00	IVR BBB- /Stable Outlook	--	--	--

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. 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. Crores)	Rating Assigned/ Outlook
Long Term Debt- Term Loan	-	-	June 2026	8.00	IVR BBB- /Stable Outlook