

May 12, 2010

**CARE ASSIGNS 'A' RATING TO THE NCD ISSUE OF REI AGRO LTD.****Rating Assigned**

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Non-convertible Debenture (NCD) issue	100.0	'CARE A' (Single A)	Assigned

The NCDs, having tenure of ten years, shall have bullet repayment at the end of tenure.

**Rating Rationale**

The ratings draw strength from the established track record of the company spanning over a decade, leadership position in the domestic basmati rice market, integrated business model leading to reasonably high operating margin, strategic location of the units with proximity to the raw material source, state-of-the-art technology & fully automated process, wide distribution network across the country alongwith the support of group's retail chain ('6Ten') for distribution, recent equity infusion by way of QIP issue and significant demand potential for Indian basmati & parboiled rice in both domestic & overseas market. The ratings are however, constrained by working capital intensive nature of RAL's business leading to high level of fund-based bank facilities, high overall gearing, significant increase in interest cost, exposure to group companies, occasional GoI intervention by way of policy formulation affecting the industry performance, volatility in prices and vulnerability of the basmati rice industry to vagaries of nature. Ability of the company to sustain performance in view of high interest cost, frequent change in government policies and competition in the international market remain the key rating sensitivities.

**Company Profile**

RAL, incorporated in 1994, is engaged in processing and sale (including export) of basmati rice from December, 1996. It has basmati rice processing units at Rewari, (Haryana), and Amritsar, with an aggregate capacity of 6,92,040 tonnes per annum. The company uses milling technology of Buhler GmbH, Germany, an established technology provider in both rice & wheat industry across the globe. It sells basmati rice, in bulk, in the domestic wholesale market as well as in overseas market under its various brands ('Mr. Miller', 'Al-Tahaan', Kasauti, etc.). The company is also engaged in wind power generation.

RAL earned a PBILDT of Rs.456.0 crore (PY – Rs.317.0 crore) and PAT of Rs.62.5 crore (PY – Rs.81.6 crore) on net sales of Rs.2,446.2 crore in FY09 (PY – Rs.1732.0 crore). Relatively higher increase in capital charge vis-à-vis PBILDT along with a foreign exchange cash loss of Rs. 32.1 crore led to a fall in PAT (after defd. tax) level and margin.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

RAL raised Rs.182.9 crore by way of QIP issue in July 2009. During 9MFY10, there was significant improvement in turnover and PAT (after defd. tax) level and margin as compared to 9MFY09. RAL earned a PAT (after defd. tax) of Rs.124.8 crore on net sales of Rs.2478.7 crore in 9MFY10.

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