

Press Release

Mahateja Rice Mills Private Limited

June 21, 2018

Rating Upgraded, Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded from ACUITE BB- / Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.16.93 crore bank facilities of Mahateja Rice Mills Private Limited (MRMPL). The outlook is '**Stable**'.

Acuite has reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 2.20 crore bank facilities of MRMPL.

Further, Acuite has also assigned the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 0.87 crore bank facility of MRMPL.

The upgrade is in view of significant growth in revenues along with improved working capital operations of the company. Acuite believes going ahead the company will sustain the growth in revenues and will efficiently manage its working capital over the medium term.

The Telangana based, Mahateja Rice Mills Private Limited was incorporated in 2002. The company is engaged in processing and trading of rice. The company has set up a rice mill in Nalgonda district with an installed capacity of 70000 quintals per month.

Key Rating Drivers

Strengths

- **Experienced management**

The directors, Mr. Narsimha Manchukonda and Mr. Kushaliah Bandaru have over three decades of experience in the rice milling industry. This has resulted into healthy relationships with suppliers and repetitive orders from its customers.

- **Proximity to rice growing area**

MRMPL's manufacturing facility is located in Nalgonda district. The company benefits from the proximity to raw material source as Nalgonda district is one of the major rice producing locations in South India. The company procures paddy from the local farmers and agents.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by networth of Rs.8.55 crore as on 31 March, 2018 (Provisional) as against Rs.7.62 crore as on 31 March, 2017. The gearing improved to 1.67 times as on 31 March, 2018 (Provisional) from 1.92 times as on 31 March, 2017. The total debt of Rs.14.26 crore as on 31 March, 2018 (Provisional) mainly comprises Rs.0.63 crore of term loans, Rs.2.89 crore of unsecured loans

and Rs.10.74 crore of working capital facility. The company has moderate interest coverage ratio (ICR) of 2.46 times for FY2018 (Provisional) as against 2.11 times for FY2017.

- **Efficiently managed working capital operations**

MRMPL has efficiently managed its working capital as reflected in Gross Current Assets of 85 days in FY2018 (Provisional) as against 113 days in FY2017 and 155 days in FY2016. This is mainly on account of inventory of 51 days in FY2018 (Provisional) as against 83 days in FY2017. The company has debtors of 24 days in FY2018 (Provisional) as against 28 days in FY2017.

Weaknesses

- **Moderate scale of operations**

The revenues of the company increased to Rs.78.79 crore in FY2018 (Provisional) from Rs.57.09 crore in FY2017 and Rs. 50.98 crore in FY2016. This was mainly due to completed capital expenditure resulting in increased capacity. The EBITDA (Earnings before interest, tax, depreciation and amortization) margins have been declining over the years. EBITDA margins declined to 3.34 percent in FY2018 (Provisional) as against 4.22 percent in FY2017 and 4.85 in FY2016. This is mainly due to increased employee cost as a percentage of sales. However, PAT (Profit after Tax) margins have improved to ~0.88 percent in FY2018 (Provisional) from 0.75 percent in FY2017.

- **Exposure to agro climatic risks and competitive industry**

Since the company is engaged in the processing of agro based products, the profit margins are exposed to agro climatic risks. The agro processing industry is highly competitive and fragmented with several organised and unorganised players. The intense competition and low value addition in the agro processing industry results in low operating margins.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of MRMPL to arrive at this rating.

Outlook: Stable

Acuite believes that MRMPL's business risk profile will remain stable over the medium term on the back of its promoters' industry experience. The outlook may be revised to 'Positive' in case MRMPL achieves higher than expected revenues while sustaining its existing operating margins, leading to improvement in the overall business risk profile. Conversely, the outlook may be revised to 'Negative' if in case of elongation in working capital cycle or deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	78.79	57.09	50.98
EBITDA	Rs. Cr.	2.63	2.41	2.47
PAT	Rs. Cr.	0.69	0.43	0.39
EBITDA Margin	(%)	3.34	4.22	4.85
PAT Margin	(%)	0.88	0.75	0.76
ROCE	(%)	8.75	7.50	8.03
Total Debt/Tangible Net Worth	Times	1.67	1.92	2.53
PBDIT/Interest	Times	2.46	2.11	1.88
Total Debt/PBDIT	Times	5.42	6.00	7.22
Gross Current Assets (Days)	Days	85	113	155

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
25-Sep-2017	Cash Credit	Long Term	12.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	1.15	ACUITE BB- / Stable (Reaffirmed)
	Standby Line of Credit	Short Term	1.80	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.20	ACUITE A4+ (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	0.18	ACUITE BB- / Stable (Reaffirmed)
17-Jun-2016	Cash Credit	Long Term	12.00	ACUITE BB- / Stable (Upgraded)
	Term Loan	Long Term	1.15	ACUITE BB- / Stable (Upgraded)
	Standby Line of Credit	Short Term	1.80	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.20	ACUITE A4+ (Upgraded)
	Proposed Working Capital Demand Loan	Long Term	0.18	ACUITE BB- / Stable (Assigned)
27-Jun-2015	Cash Credit	Long Term	12.00	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	2.67	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	0.20	ACUITEA4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.21	ACUITE BB / Stable (Upgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.72	ACUITE BB / Stable (Upgraded)
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A4+ (Reaffirmed)
Foreign Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.87	ACUITE A4+ (Assigned)

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About Acuite Ratings & Research:

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