

Press Release

Shri Om Rice Mills (SORM)

23 October, 2017

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 6.00 crore
Long Term Rating	SMERA B/Stable

** Refer Annexure for details*

SMERA has reaffirmed the long-term rating of '**SMERA B' (read as SMERA B)** on the above mentioned bank facilities of Shri Om Rice Mills (SORM). The outlook is '**Stable**'.

SORM was established in 1983 by Mr. Mahesh Chand Agnihotri, Mr. Ram Naresh Agnihotri and family. The firm is engaged in the milling and processing of paddy into basmati and non-basmati rice at Manipuri (Uttar Pradesh). The firm has an installed capacity of 1825 tons per annum.

List of key rating drivers and their detailed description:

Strengths

Established operational track record and experienced management: SORM is engaged in the milling and processing of paddy since 1983. The firm benefits from its experienced management. The promoters have around two decades of experience in the rice milling business.

SMERA believes that SORM will continue to benefit from its established position in the market and experienced management.

Weaknesses

Modest scale of operations and uneven profitability: Despite being in the business for more than three decades, SORM's revenue has been modest at Rs. 18.33 crore for FY2016-17 as against Rs.8.16 crore for FY2015-16. The revenue increased on account of healthy execution of orders during FY2017. Further, the firm booked revenue of around Rs. 12.49 crore for the period April to August 2017.

The EBITDA margins declined from 9.39 percent in FY2016 to 4.83 per cent in FY2017 mainly on account of increase in raw material cost. The net margins fell to 0.89 percent in FY2017 as against 1.41 percent in FY2016 and 0.36 percent in FY2015.

Below average financial risk profile: SORM has a below average financial risk profile marked by low tangible networth of Rs.1.04 crore as on 31 March, 2017, Rs.1.02 crore as on 31 March, 2016 and Rs.1.12 crore as on 31 March, 2015 on account of withdrawal and non- retention of profits. The gearing deteriorated to 8.65 times as on 31 March, 2017 as against 7.78 times as on 31 March, 2016 mainly due to increase in working capital funding from the previous year. The total debt stood at Rs.9.03 crore as on 31 March, 2017 which majorly comprised working capital loan from bank of Rs. 7.0 crore and term loan of Rs. 2.03 crore. SORM has a moderate interest coverage ratio of 1.71 times in FY2016-17 as against 1.70 times in FY2015-16.

Working capital intensive operations: The operations of SORM are working capital intensive marked by high gross current assets (GCA) of 247 days in FY2016-17 (Provisional) as against 415 days in FY2015-16. This was due to inventory holding and debtor days of 239 and 15 days in FY2017. The operations are working capital intensive with almost fully utilised bank limits as confirmed by the banker.

SMERA believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Highly fragmented, competitive and seasonal industry: SORM operates in a highly competitive and fragmented agro industry characterised by a large number of unorganised players impacting the profit margins of the firm. The industry is also exposed to agro climatic risks.

Risk of capital withdrawal: The firm is exposed to the risk of capital withdrawal considering its partnership constitution. The same has been observed during the period under study.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of SORM.

Outlook: Stable

SMERA believes that SORM's outlook will remain stable owing to its promoters' experience in the industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while achieving improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue and decline in margins or deterioration in the financial risk profile due to higher than expected debt funded working capital requirement.

About the Rated Entity - Key Financials

For FY2016-17, SORM reported net profit of Rs.0.16 crore on operating income of Rs.18.33 crore, as against net profit of Rs.0.11 crore on operating income of Rs.8.16 crore in FY2015-16. The net worth stood at Rs.1.04 crore as on 31 March, 2017 compared to Rs.1.02 crore, a year earlier.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs .Crore)	Ratings/Outlook
14-Mar, 2016	Cash Credit	Long Term	4.50	SMERA B/Stable (Assigned)
	Term Loan	Long Term	1.50	SMERA B/Stable (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	NA	NA	NA	4.50	SMERA B/Stable (Reaffirmed)
Term Loan	NA	NA	NA	1.50	SMERA B/Stable (Reaffirmed)

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ABOUT SMERA

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