Press Release

Ponmurugan Dhall Mills (PDM)

29 August, 2017

Rating Reaffirmed

Total Bank Facilities Rated	Rs. 9.93 crore
Long Term Rating	SMERA BB-/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

** Refer Annexure for details*

SMERA has reaffirmed the long term rating of **'SMERA BB-' (read as SMERA double B minus)** and short term rating of **'SMERA A4+' (read as SMERA A4 plus)** on the above bank facilities of Ponmurugan Dhall Mills (PDM). The outlook is **'Stable'**.

PDM, established in 1960 by Mr. M. Vanniyarajan, is engaged in the processing of wheat flour, broken wheat, gram flour among others. The firm, closely held by Mr. V. Chandrasekaran and his brothers V. Senthil Kumar and V.V. Balasubramaniam (sons of Mr. M. Vanniyarajan), also trades in pulses. The manufacturing facility is located at Coimbatore (Tamil Nadu) and has installed capacity of 4 tons per day.

List of key rating drivers and their detailed description:

Strengths

Established operational track record and experienced management: PDM is engaged in the processing of wheat flour, broken wheat, gram flour since 1960. The firm caters to around 100 wholesalers and retailers in Tamil Nadu and Kerala. Further, the firm markets its products under the 'Mayil Mark' brand name. PDM also benefits from its experienced management. Mr. Mr. V. Chandrasekaran (Partner) possesses over five decades of experience in the food processing and trading business. SMERA believes that PDM will continue to benefit from its established position in the market and experienced management.

Moderate revenue growth: The revenue of the firm increased by 15.63 per cent to Rs. 148.09 crore in FY2015-16 from Rs. 128.07 crore in FY2014-15. Further, the firm booked revenue of around Rs. 175 crore for FY2016-17 (Provisional).

Moderate financial risk profile and comfortable working capital cycle: PDM has a moderate financial risk profile marked by tangible networth of Rs.8.62 crore as on 31 March, 2016 as against Rs.7.15 crore as on 31 March, 2015. The gearing stood at 1.48 times as on 31 March, 2016 as against 1.29 times as on 31 March, 2015. The total debt of Rs.13.09 crore as on 31 March, 2016 comprises majorly of working capital funding of Rs. 11.41 crore and term loan of Rs. 1.31 crore.

PDM has moderate interest coverage ratio of 1.99 times in FY2015-16 as against 2.04 times in FY2014-15. Going forward, the gearing is expected to remain comfortable in the medium term in the absence of future external borrowing.

PDM's working capital cycle remained comfortable at 42 days in FY2016 (39 days in FY2015). The Gross Current Assets (GCA) stood at 64 days in FY2016 as against 62 days in FY2015. However, the working capital limit has been fully utilised for the last six months ended July, 2017.

SMERA believes that PDM will sustain its moderate financial risk profile on the back of moderate cash accruals and absence of large debt funded capex plans.

Weaknesses

Highly fragmented, competitive and seasonal industry: The firm is exposed to a competitive and fragmented food industry and changes in agro climatic conditions. The entry barriers are low with low capital investment required. Also, the firm is exposed to the seasonality in agricultural commodities. Moreover, the profitability of the firm is vulnerable to fluctuations in raw material prices.

Thin PAT margins: The EBITDA margins stood at 2.47 in FY2016 as against 2.17 in FY2015. However, the net profit margins are low as the firm earns 40 percent revenue from manufacturing and 60 percent from trading. However, margins have improved slightly to 0.98 per cent in FY2015-16 from 0.86 per cent in FY2014-15.

Partnership constitution of the firm: The firm is exposed to the risk of capital withdrawal considering its partnership constitution.

Analytical Approach

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

Outlook: Stable

SMERA believes that PDM will maintain a stable outlook and benefit over the medium term from the promoters extensive experience in the food processing industry and established operational track record. The outlook may be revised to 'Positive' if the firm registers strong growth in scale of operations while registering improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected scalability in revenue or registers deterioration in its financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the rated entity – key financials

For FY2015-16, PDM reported Profit after Tax (PAT) of Rs.1.46 crore on total operating income of Rs.148.09 crore compared with PAT of Rs 1.11 crore on total operating income of Rs.128.07 crore in FY2014-15. The tangible net worth stood at Rs.8.62 crore as on March 31, 2016 as against Rs.7.15 crore in the previous year.

Applicable Criteria

- Manufacturing Entity: https://www.smera.in/criteria-manufacturing.htm
- Trading Entity: https://www.smera.in/criteria-trading.htm
- Application of Financial Ratios and Adjustments: https://www.smera.in/criteria-fin-ratios.htm
- Default Recognition: https://www.smera.in/criteria-default.htm

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
06 April, 2016	Cash Credit	Long Term	INR 9.90	SMERA BB -/ Stable (Assigned)
	Proposed Bank Guarantee	Short Term	INR 0.03	SMERA A4+ (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	9.90	SMERA BB -/ Stable (Reaffirmed)
Proposed Bank Guarantee	NA	NA	NA	0.03	SMERA A4+ (Reaffirmed)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head –Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Pawan Punmaji Rating Analyst Tel: 022-67141352 Email: pawan.punmaji@smera.in	Varsha Bist, Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details please visit www.smera.in.