

Press Release

Mahalaxmi Paddy Products Private Limited

13 February, 2018



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	15.00 Cr.
Long Term Rating	SMERA BB-/Stable (Upgraded from SMERA B+/Stable)
Short Term Rating	SMERA A4 (Reaffirmed)

**Refer annexure for details*

SMERA has upgraded the long term rating to **‘SMERA BB-’ (read as SMERA double B minus)** from **‘SMERA B+’ (read as SMERA B plus)** and reaffirmed the short term rating of **‘SMERA A4’ (read as SMERA A Four)** on the Rs. 15.00 crore bank facilities of Mahalaxmi Paddy Products Private Limited (MPPPL). The outlook is **‘Stable’**.

The upgrade is in view of the growing scale of operations and improvement in profitability margins of the company. SMERA believes that MPPPL will be able to sustain its existing business profile along with the profitability margins over the medium term.

Mahalaxmi Paddy Products Private Limited incorporated in 1990 by Mr. Arun Maheshwari and Mrs. Usha Maheshwari. The company is engaged in the processing, milling and trading of non-basmati rice. The manufacturing facility located at Uttar Pradesh has installed capacity of 8 tonnes per hour. The company caters to countries in the Middle East.

List of key rating drivers

Strengths

Established track record of operations and experienced management

MPPPL incorporated in 1990 by Mr. Arun Maheshwari and Mrs. Usha Maheshwari (Directors) is engaged in the processing, milling and trading of non-basmati rice. Mr. Arun Maheshwari has more than two decades of experience in the rice industry.

Growing scale of operations and improvement in profitability margins

The operating income in FY2017 registered growth to Rs. 33.20 crore from Rs. 21.10 crore in FY2016 owing to increase in exports in FY2017 to Gulf countries. The profitability margins also improved as the company is now focusing more on processing rather than trading which has enabled gain better margins. The EBITDA margin stood at 7.90 percent in FY2017 as against 4.35 percent in FY2016. The PAT margins have also improved to 7.90 percent in FY2017 from 4.35 percent in FY2016 due to increase in processing activity.

Weaknesses

Average financial risk profile

The financial risk profile has remained average marked by net worth of Rs.7.58 crore as on 31 March, 2017 as against Rs. 7.25 crore as on 31 March, 2016. The gearing stood at 2.05 times as on 31 March, 2017 as against 1.52 times as on 31 March, 2016. The total debt of Rs. 15.57 crore outstanding as on 31 March, 2017 comprises Rs. 2.96 crore of term loan from the bank and Rs. 12.60 crore of working capital borrowing. The Interest Coverage Ratio stood at 2.23 times in FY2017 as against 1.14 times in FY2016. The Debt Service Coverage Ratio stood at 1.47 times in FY2017 as against 0.97 times in FY2016.

The net cash accruals improved to Rs.1.32 crore in FY2017 as against Rs. 0.44 crores in FY2016.

Working capital intensive operations

MPPPL has working capital intensive operations reflected in the GCA days of 194 in FY2017 compared to 217 days in FY2016. This is majorly on account of high inventory holding period of 204 days in FY2017 and 200 days in FY2016. The reason for the high inventory is improvement in harvesting technology of paddy (raw material for rice) wherein paddy is available within two months for further processing as compared to five to six months in the past. The company needs to stock inventory in its factory premises for around six to eight months. The average bank limit utilisation stood at 90 percent for the last six months ended December 2017.

Agro climatic risks

Paddy, the main raw material required for rice is a seasonal crop and the production of the same is highly dependent upon monsoon season. Thus inadequate rainfall may affect the availability of paddy in adverse weather conditions.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of MPPPL to arrive at the rating.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Outlook – Stable

SMERA believes that MPPPL will maintain a 'Stable' outlook on the back of the management's extensive experience in the rice milling business and its established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margins. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	33.20	21.10	7.84
EBITDA	Rs. Cr.	2.62	0.92	(0.01)
PAT	Rs. Cr.	0.34	(0.73)	(0.62)
EBITDA Margin	(%)	7.90	4.35	(0.14)
PAT Margin	(%)	1.01	(3.47)	(7.96)
ROCE	(%)	8.33	(1.31)	(3.77)
Total Debt/Tangible Net Worth	Times	2.05	1.52	1.24
PBDIT/Interest	Times	2.23	1.14	0.09
Total Debt/PBDIT	Times	5.85	11.59	255.49
Gross Current Assets (Days)	Days	194	217	435

Status of non-cooperation with previous CRA (if applicable): CRISIL Ratings vide its press release dated May 11, 2017 has stated, "CRISIL has been consistently following up with Mahalaxmi Paddy Products (P) Ltd. (MPPL) for obtaining information through letters and emails dated January 23, 2017, and February 13, 2017, among others, apart from telephonic communication. However, the issuer has remained non cooperative.' The investors, lenders and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING'. These ratings lack a forward looking component as it is arrived at without any management interaction and is based on best available or limited or dated information on the company."

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
27-Feb, 2017	Cash Credit	Long Term	8.95	SMERA B+ / Stable (Assigned)
	Term loan	Long Term	2.99	SMERA B+ / Stable (Assigned)
	Letter of Credit	Short Term	0.85	SMERA A4 (Assigned)

	Proposed long term loan	Long Term	2.21	SMERA B+ / Stable (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.16 (Enhanced from Rs. 8.95 Cr)	SMERA BB-/Stable (Upgraded from SMERA B+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.99	SMERA BB-/Stable (Upgraded from SMERA B+/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.85	SMERA A4 (Reaffirmed)

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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.

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