



Press Release

Mahalaxmi Paddy Products Private Limited

October 19, 2018

Rating Reaffirmed and Assigned

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | 17.00 Cr. (Enhanced from Rs. 15.00 Cr.) |
| Long Term Rating | ACUITE BB-/ Stable |
| Short Term Rating | ACUITE A4 |

*Refer annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 15.00 crore bank facilities of Mahalaxmi Paddy Products Private Limited (MPPPL). The outlook is '**Stable**'.

Further, Acuite has assigned long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 2.00 crore bank facilities of MPPPL. The outlook is '**Stable**'.

MPPPL was incorporated in 1990 by Mr. Arun Maheshwari and Mrs. Usha Maheshwari. The company is engaged in processing, milling and trading of non-basmati rice. The manufacturing facility is located at Uttar Pradesh with an installed capacity of 8 tonnes per hour. The company caters to majorly gulf countries.

Analytical Approach:

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

Key Rating Drivers

Strengths

Established track record of operations and experienced management

MPPPL was incorporated in 1990 by Mr. Arun Maheshwari and Mrs. Usha Maheshwari (Directors). The promoters have more than two decades of experience in the rice industry.

Weaknesses

Moderate scale of operations with uneven profitability margins

The company has moderate scale of operations during the period FY2016 to FY2018 under the study. The revenues stood at Rs.42.77 crore in FY2018 as against Rs.33.20 crore in FY2017 and Rs.21.10 crore in FY2016. The reason for increase in revenue was because of new customers added from Middle East countries such as Qatar and UAE to the existing business profile in FY2017 and FY2018. The company is expecting the same growth going ahead from these customers. Further, the company has registered revenues of Rs.~20.00 crore for the period April to September, 2018. The profitability margins of the company has shown uneven trend during the period FY2016 to FY2018 under the study. The operating margins stood at 6.00 percent in FY2018 (PY: 7.90 percent). The margins have declined on account of increase in the raw material prices procured by the company (majorly paddy) in FY2018 over FY2017.

The net profitability has also shown uneven trend and the same stood at 0.35 percent in FY2018 (PY: 1.01 percent). The net profitability margins have declined due to increase in interest cost in FY2018 over FY2017.

Average financial risk profile

The financial risk profile of MPPPL remains average marked by average net worth and debt coverage indicators. The tangible net worth stood at Rs.8.10 crore which includes unsecured loan to the tune of Rs.3.64 crore considered as quasi equity as on 31 March, 2018. The net worth stood at Rs.7.58 crore as on 31 March, 2017. The gearing increased to 2.40 times as on 31 March, 2018 (PY: 2.05 times) on account of increase in working capital borrowings in FY2018 over FY2017. The total debt of Rs.19.45 crore outstanding as on 31 March, 2018 comprises Rs.2.08 crore as secured term loan from the bank and Rs.17.37 crore as working capital borrowings from the bank. The interest coverage ratio stood at 1.92 times in FY2018 as against 2.23 times in FY2017. The net cash accruals of the company stood at Rs.1.14 crore in FY2018 as against Rs.1.32 crore in FY2017.

Acuité believes that the financial risk profile of MPPPL will remain average over the medium term in the absence of any major capital expenditure plan.

Working capital intensive nature operations

MPPPL has working capital intensive nature of operations marked by high Gross Current Assets (GCA) of 202 days in FY2018 as against 194 days in FY2017. This is majorly on account of high inventory holding period of around 200 to 210 days. The company maintains high inventory for around 200 days (majorly paddy) because it is a seasonal crop. The debtors days and creditor days are comfortable at 4 and 22 days respectively. The average bank limit utilisation stood at ~80-90 percent for last six months ended September 2018.

Acuité believes that being into processing of rice, the operations of MPPPL will remain working capital intensive because of high operating cycle.

Agro climatic risks

Paddy which is 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. The company is exposed to the risk related with fluctuation in raw material price. As paddy price is largely dependent on several external factors such as domestic demand outlook, international trade regulations and domestic productions. Thus, the company is exposed to significant risk related with raw material fluctuation.

Outlook: Stable

Acuite 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 (Consolidated)

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 42.77 | 33.20 | 21.10 |
| EBITDA | Rs. Cr. | 2.56 | 2.62 | 0.92 |
| PAT | Rs. Cr. | 0.15 | 0.34 | (0.73) |
| EBITDA Margin | (%) | 6.00 | 7.90 | 4.35 |
| PAT Margin | (%) | 0.35 | 1.01 | (3.47) |
| ROCE | (%) | 6.67 | 8.33 | (1.31) |
| Total Debt/Tangible Net Worth | Times | 2.40 | 2.05 | 1.52 |
| PBDIT/Interest | Times | 1.92 | 2.23 | 1.14 |
| Total Debt/PBDIT | Times | 7.33 | 5.85 | 11.59 |
| Gross Current Assets (Days) | Days | 202 | 194 | 217 |

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|--------------------------------------|---|
| 13-Feb-2018 | Cash Credit | Long term | 11.16 (Enhanced from Rs. 8.95 Cr) | ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable) |
| | Term loan | Long term | 2.99 | ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable) |
| | Letter of Credit | Short term | 0.85 | ACUITE A4 (Reaffirmed) |
| 01-Nov-2016 | Cash Credit | Long term | 8.95 | ACUITE B+/Stable (Assigned) |
| | Term loan | Long term | 2.99 | ACUITE B+/Stable (Assigned) |
| | Letter of Credit | Short term | 0.85 | ACUITE A4 (Assigned) |
| | Proposed long term loan | Long term | 2.21 | ACUITE 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 | Not Applicable | Not Applicable | Not Applicable | 12.00 (Revised from Rs. 11.16 Cr) | ACUITE BB-/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 1.20 (Revised from Rs. 2.99 Cr) | ACUITE BB-/Stable (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 0.85 | ACUITE A4 (Reaffirmed) |
| Proposed long term loan | Not Applicable | Not Applicable | Not Applicable | 2.95 | ACUITE BB-/Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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