

## Press Release

### Mahalaxmi Paddy Products Private Limited

November 11, 2019



#### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.17.00 crore
<b>Long Term Rating</b>	ACUITE BB-/ Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A4 (Withdrawn)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 17.00 crore bank facilities of Mahalaxmi Paddy Products Private Limited (MPPPL). The outlook is '**Stable**'.

Acuité has withdrawn the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 0.85 crores bank facilities of MPPPL.

Incorporated in 1990, Mahalaxmi Paddy Products Private Limited (MPPPL) is an Uttar Pradesh-based company promoted by Mr. Arun Kumar Maheswari and Mrs. Usha Maheswari. The company is engaged in the processing, milling and trading of basmati rice. The manufacturing facility is located at Uttar Pradesh with an installed capacity of 8tons/hour with an average utilization of ~78per cent. The company is also engaged in the trading of basmati rice of other brands. Further, MPPPL is also engaged in dehusking the groundnut and roast it with salt and sell it in the domestic market. The company has its own product named as 'Manwar' for domestic sales of rice.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Mahalaxmi Paddy Products Private Limited (MPPPL) to arrive at this rating.

#### Key Rating Drivers

##### Strengths

- **Established track record of operations and experienced management**

MPPPL is promoted by Mr. Arun Kumar Maheswari and Mrs. Usha Maheswari, the promoters of the company have been engaged in the aforementioned industry for almost three decades. The same has helped the company to establish healthy relationship with its customers and suppliers. The key customers of the company include names like Supple Tek Industries Private Limited, PJS Overseas Limited to name a few. Further, the key suppliers of the company include Shyam Trading Co, Madhuveer Singh & Brothers, etc. amongst others with no major concentration in revenues. On the back of the stable and repeat orders by the key customers, the revenues withstands to be at Rs. 59.72 Crores in FY2019 (Provisional).

## Weaknesses

- **Moderate Scale of Operation with uneven profitability margins**

The company has moderate scale of operations during the period FY2017 to FY2019 (Provisional) under the study. The revenue stood at Rs.59.72 crore in FY2019 as against Rs. 42.76 crore in FY2018 and Rs. 33.18 crore in FY2017. The reason for increase in revenue was majorly on account of addition of new customers in FY2018 and FY2019 (Provisional). The company is expecting the same growth going ahead from these customers. Further, the company has registered revenues of Rs. 24.34 crore for the period April to September, 2019. The profitability margins of the company has shown uneven trend during the period FY2017 to FY2019 (Provisional) under study. The operating margins stood at 4.30 percent in FY2019 as against 6 percent in FY2018. The margins have declined on account of increase in the raw material prices procured by the company in FY2019 (Provisional) over FY2018.

Further, the net profitability has also shown uneven trend and the same stood at 0.38 percent in FY2019 as against 0.34 percent in FY2018 and against 1.01 percent in FY2017. The net profitability margins have declined due to increase in interest cost in FY2019 (Provisional) over FY2018.

- **Working Capital intensive nature of operations**

MPPPL's working capital is moderately intensive in nature as reflected by its gross current asset (GCA) days of around 135 days for FY2019 (Provisional). The company maintains raw material inventory of around 64 days and finished goods of inventory of just 68 days in order to cater to spot orders from customers. On the other hand, the company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of 14 days to its customers. MPPPL's working capital limits over the last twelve months period was utilized at an average of 51 per cent, while the peak utilization was high at around 94 per cent during the same period.

Acuité expects the operations of the company to remain moderately intensive on account of the moderate inventory levels maintained by the company to cater to spot orders.

- **Average financial risk profile**

MPPPL's financial risk profile is average, marked by modest net worth, moderate gearing, and modest debt protection measures.

MPPPL's net worth has remained modest at around Rs.8.80 crores as on March 31, 2019 (Provisional) as against of Rs.8.10 crore in FY2018. The net worth levels have remained modest due to modest scale of operations, which has resulted in limited accretion to reserves over the last three years through FY2019 (Provisional). Though, the revenues of the company are expected to remain in the range of Rs.68.08 crore to Rs.80.97 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves.

The company has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 2.40 times as on March 31, 2018. The gearing levels continue to remain improved to around 1.82 times as on March 31, 2019 (Provisional). MPPPL's low cash accruals to the tune of Rs.1.11 crore has supported in minimizing the reliance on external debt leading to moderate gearing and debt levels of 1.82 times and Rs. 0.39 crore as on March 31, 2019 (Provisional).

The revenues of the company increased by around 39.65 per cent to Rs.59.72 crore during 2018-19 as per provisional, while its operating margins remained low in the range of 4.28 to 4.34 per cent. The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 (Provisional) were modest at 0.07times and 1.83 times, respectively.

### Rating sensitivity factor

- Decline in revenue by more than 20 per cent.
- Significant deterioration in financial risk profile or working capital

### Material Covenants

None

### Liquidity position: Stretched

The company has stretched liquidity marked by average net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 1.11 crore in FY2019 (Provisional) as against the maturing debt obligations of around Rs.0.39 crore. The cash accruals of the company are estimated to remain around Rs. 1.58 crore to Rs. 2.89 crore during 2020-22 against repayment obligations of Rs. 1.75 crore during the same period. The company's working capital operations is moderately intensive which is marked by gross current asset (GCA) days of 135 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.06 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.32 times as on 31 March 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of increase in cash accrual against low debt repayments over the medium term.

### Outlook: Stable

Acuité believes that MPPPL will continue to benefit over the medium term due to its long track record of operations, experienced management. The outlook may be revised to 'Positive', if the company demonstrates substantial growth in its revenues and operating margins while maintaining its working capital management. Conversely, the outlook may be revised to 'Negative', if company's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, and deterioration in working capital leading to higher reliance on external borrowings.

### About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	59.72	42.76	33.18
EBITDA	Rs. Cr.	2.57	2.57	2.63
PAT	Rs. Cr.	0.23	0.15	0.34
EBITDA Margin	(%)	4.30	6.00	7.92
PAT Margin	(%)	0.38	0.34	1.01
ROCE	(%)	6.87	6.65	14.86
Total Debt/Tangible Net Worth	Times	1.82	2.40	2.05
PBDIT/Interest	Times	1.83	1.91	2.23
Total Debt/PBDIT	Times	6.01	7.34	5.83
Gross Current Assets (Days)	Days	135	203	196

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

CRISIL, vide its press release dated August 03, 2018 had denoted the rating of Mahalaxmi Paddy Products Private Limited as 'CRISIL B/ Stable/ CRISIL A4; ISSUER NOT\_COOPERATING' on account of lack of adequate information required for monitoring of ratings.

### **Any other information**

Not Applicable

### **Applicable Criteria**

- Default Recognition -<https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entity-<https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity-<https://www.acuite.in/view-rating-criteria-61.htm>

### **Note on complexity levels of the rated instrument**

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

### **Rating History (Up to last three years)**

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
October 19, 2018	Cash Credit	Long Term	12.00	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.20	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	0.85	ACUITE A4 (Reaffirmed)
	Proposed Long Term Loan	Long Term	2.95	ACUITE BB-/Stable (Assigned)
February 13, 2018	Cash Credit	Long Term	11.16	ACUITE BB-/Stable (Upgraded)
	Term Loan	Short Term	2.99	ACUITE BB-/Stable (Upgraded)
	Letter of Credit	Short Term	0.85	ACUITE A4 (Reaffirmed)

November 01, 2016	Cash Credit	Long Term	8.95	ACUITE B+/Stable (Assigned)
	Term Loan	Short Term	2.99	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short Term	0.85	ACUITE A4 (Assigned)
	Proposed Bank Facility	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.80 (Revised from Rs. 1.20 cr.)	ACUITE BB-/ Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.85	ACUITE A4 (Withdrawn)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	3.35 (Enhanced from Rs.2.95cr.)	ACUITE BB-/ Stable (Reaffirmed)

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### About Acuité Ratings & Research:

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