

Press Release

Shree Radhe Shyam Oil Mill

May 09, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.30 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 8.30 crore bank facilities of Shree Radhe Shyam Oil Mill. The outlook is '**Stable**'.

Shree Radhe Shyam Oil Mill (SRSOM) was established in 2009 as a partnership firm by Mr. Amit Kumar and Mr. Gautam Kumar. The firm is engaged in the processing of cotton seed, khal and cakes at Samana, Punjab. The milling capacity stands at ~500 quintals per day. The firm procures raw material i.e. cotton seeds from Maharashtra, Karnataka, Telangana and sells cotton seeds oil and khal in Punjab and Haryana.

Key Rating Drivers

Strengths

- **Experienced promoters**

SRSOM was established as a partnership firm in 2009 by Mr. Amit Kumar and Mr. Gautam Kumar. The day-to-day operations are led by the aforementioned.

- **Conservative financial risk profile**

The firm has maintained a conservative financial risk profile marked by prudent gearing of 1.27 times on 31 March, 2017 (Provisional) as compared to 1.15 times on 31 March, 2016. The financial risk profile is also supported by comfortable interest coverage ratio of 2.33 times in FY2017 (Provisional) vis-à-vis 1.15 times in FY2016. This is mainly on account of increase in profitability metrics due to significant inventory gains reported by the firm. The rating also factors in the increase in networth of the firm to Rs. 8.86 cr on 31 March, 2017 (Provisional) (includes quasi equity of Rs.5.72 crore) as against Rs. 6.47 cr as on 31 March, 2016 (includes quasi equity of Rs.5.18 crore). The increase in networth is attributed to the periodic infusion of capital by partners and the year-on-year increase in retained profits of the firm. SMERA expects SRSOM's debt protection metrics and capital structure to remain prudent on account of its ability to maintain profitability margins over the medium term.

Weaknesses

- **Seasonality of agro products**

The firm is engaged in the extraction of cotton seed oil and cakes which are seasonal commodities. The firm needs to stock the same and hence, any fluctuation in raw material prices can adversely impact profitability.

- **Competitive and fragmented industry**

Cotton is a highly competitive industry with intense competition from the organised as well as

unorganised players. As a result, the net profitability registered a low of 0.26 per cent in FY2016, a decline from 0.68 per cent during the previous year.

• Agro-climatic risks

Cotton seed - the main raw material is a seasonal crop and production of the same is highly dependent upon the monsoon. Inadequate rainfall may affect the availability of cotton in adverse weather conditions.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the firm.

Outlook: Stable

SMERA believes that the outlook for SRSOM will remain 'Stable' over the medium term on account of its experienced promoters. The outlook may be revised to 'Positive' if the firm achieves more than expected revenue while improving its profit margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profitability or deterioration in the capital structure.

About the Rated Entity - Key Financials

In FY2015-16, the firm achieved operating income of Rs.20.27 cr with Profit after Tax (PAT) of 0.05 cr as compared to operating income of Rs. 15.47 cr with PAT of 0.10 cr a year earlier. The Networth of the firm stood at Rs.6.47 cr (includes quasi equity of Rs. 5.18 cr) in FY2015-16 as against Rs.3.84 cr (includes quasi equity of Rs. 3.18 cr) a year earlier.

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

None

Any other information

None

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>

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.80	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.40	SMERA B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA B+ / Stable

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