

Press Release

Ekta Rice Land (ERL)



16 May, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.14.00 Cr
Long Term Rating	SMERA B/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating to '**SMERA B (read as SMERA B)**' to the Rs.14.00 crore bank facilities of Ekta Rice Land (ERL). The outlook is '**Stable**'.

Ekta Rice Land (ERL) was established in the year 2014 as a partnership firm by Mr. Surinder Kumar, Mr. Hari Krishan, Mr. Naresh Rana and Mr. Pardeep Rana. The firm is engaged in the milling and trading of basmati and non-basmati rice with the milling capacity of 15 tonnes per hour. The manufacturing location is in Karnal (Haryana).

List of Key Rating Drivers and their detailed description

Strengths:

Experienced promoters: The partners of the firm Mr. Surender Kumar; Mr. Hari Krishan, Mr. Naresh Rana and Mr. Pardeep Rana possess experience of more than a decade in the rice milling industry through management of sister concern Jai Hanuman Rice and General Mill.

Proximity to raw material: The firm is strategically located in Karnal; Haryana which enjoys proximity to the key raw material, paddy. The firm procures the raw material from U.P, Punjab, and Haryana and sells in states like Delhi, Madhya Pradesh, Haryana and U.P.

Weaknesses:

Agro Climatic Risk: 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 and in turn impact the business risk profile of the firm.

Stretched working capital cycle: The firm has stretched working capital cycle marked by the GCA days of 301 days in FY2015-16. The GCA days are eminent from high inventory days of 301 days and debtors days of 50 days in FY2015-16. The firm maintains high inventory days on account of trading and milling of basmati rice. SMERA also notes that the average cash credit limit utilisation of the firm stands high at ~99 percent for the period August 2016 to February 2017.

Modest financial risk profile: The firm has modest financial risk profile marked by high gearing and moderate coverage indicators. The gearing of the firm stands at 5.37 times as on March 31, 2016. The gearing is eminent from low networth of Rs.1.96 cr (includes quasi equity of Rs.0.46 cr as subordinated with the bank's debt) as on 31st March 2016 as against the total debt Rs.10.56 cr as on 31st March 2016. Moreover, the interest coverage ratio stood moderate at 1.39 times in FY2015-16. The total outside liabilities to tangible net worth (TOL/ TNW) of the firm stands high at 6.27 times as on 31st March 2016 on account of low Networth.

Analytical approach: SMERA has taken a standalone view of the financial and business risk profile of ERL.

Applicable Criteria

- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook for ERL will remain 'Stable' over the medium term on the back of experienced promoters. The outlook may be revised to 'Positive' if the company achieves more than expected revenue while improving its profit margins, capital structure and working capital cycle. Conversely, the outlook may be revised to Negative in case of lower than expected revenues and profitability, further elongation in working capital cycle and/or any large debt funded capex.

About the Rated Entity -Financials

For FY2015-16, ERL reported net profit after tax of Rs.0.06 crore on total income of Rs.6.19 crore. Further, the firm has achieved the operating income of ~Rs.12.00 crore till April 2016-February 2017 (prov). The net worth stood at Rs.1.96 crore (includes quasi equity of Rs.0.46 crore) as on March 31, 2016.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Rating History for the 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	Ratings/Outlook
Cash Credit*	N.A	N.A	N.A	Rs. 4.00 Cr	SMERA B/Stable (Assigned)
Term Loan	N.A	N.A	Not Available	Rs. 10.00 Cr	SMERA B/Stable (Assigned)

Note on complexity levels of the rated instrument:

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

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head –Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Shashank Shukla Rating Analyst – Corporate Ratings Tel: 011-4973-1302 shashank.shukla@smera.in	Varsha Bist, Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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