

Press Release

Ekta Rice Land

June 22, 2018

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B**' (read as **ACUITE B**) on the Rs.9.65 crore bank facilities of Ekta Rice Land (ERL). Further, Acuité has assigned '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.4.35 crore proposed bank facilities of ERL. The outlook is '**Stable**'.

The ratings continue to draw comfort from the experienced promoters and proximity to raw material. However, the aforementioned strengths are partially offset by the significant decline in profitability margins, exposure of operations to agro climatic risk and intense competition along with stretched liquidity position.

Ekta Rice Land (ERL) was established in 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.

About the Group

JHRG is a part of the JHR group. The group was established in 2008 and is engaged in milling and processing of basmati and non-basmati rice. The group comprises of two entities i.e. Jai Hanuman Rice and General Mills and Ekta Rice Land (ERL). The combined capacity of the four processing units of the group located at Karnal (Haryana) is around 45 tonnes per hour.

The procurement function for both the entities is centralised and is from the local mandis in Haryana, Punjab, Uttar Pradesh and Delhi. The group sells through traders and merchant exporters. The group derives around 70 percent of its revenue through domestic sales and remaining 30 percent through deemed exports to overseas markets including UAE, Iran, Iraq and USA among others.

Key Rating Drivers

Strengths

• Experienced Promoters

JHR group was established in 2008 with Jai Hanuman Rice and Gen. Mill, a partnership firm and subsequently Ekta Rice Land, a partnership firm in 2014. The group is promoted by Mr. Surinder Kumar and Mr. Hari Krishan among others. The promoters have around a decade of experience in the rice milling business. The group has long standing relations with the suppliers and customers due to the established presence in the rice milling industry and derives the attendant benefits.

• Healthy revenue growth

The group has reported significant growth in operating income during the last five years as same stood at Rs.225.37 crore for FY2018 (Provisional) as against Rs.150.12 crore in the previous year. The group reported a compounded annual general growth rate (CAGR) of around 60 percent during the last five years. The group was also undertaking job work for their customers till FY2015-16. However

during the last two years, the group has stopped undertaking job work and is directly selling in the market leading to significant growth in revenue.

- **Proximity to rice grown area**

The processing units of JHR group is located in Karnal (Haryana) which offers proximity to raw material i.e. paddy, given the ample production of paddy in this area. The group procures raw material (paddy) from local Mandis of Haryana, Punjab, Delhi and Uttar Pradesh which are among top 10 rice producing states in India.

Weaknesses

- **Decline in operating margins and stretched liquidity position**

The group has reported decline in the operating margin as same stood at 3.83 percent for FY2018 (Provisional) as against 5.50 percent in the previous year. The decline in operating margin is on account of decline in proportion of job work income in the total sales. The net cash accruals grew from Rs.4.00 crore in FY2017 to Rs.4.59 crore in FY2018 (Provisional).

Further, the liquidity position of the group is stretched with average bank limit utilisation of around 99 percent during the last six months ended as on 30 April, 2018.

- **Competitive and fragmented nature of rice industry**

Rice is a highly competitive industry with intense competition from both the organised as well as unorganised players in the industry.

- **Agro climatic risks and exposure to fluctuation in raw material prices**

The group is dealing in paddy which is an agricultural commodities and same is exposed to volatility in its prices on account of uncertain agro-climatic conditions i.e. sudden changes in climatic conditions like inadequate rainfall or draught that might affect the availability of paddy with an upward push on the price. Further, any changes in the government policies, particularly affecting the import/export cost will have an impact on commodity prices of end product.

Analytical Approach

There are strong linkages between the two entities i.e. JHRG and ERL in terms of the same line of business, common management and promoters, along with centralised procurement and common customers. Accordingly, Acuite has considered consolidated approach regarding the business and financial risk profile of JHRG and ERL.

Outlook: Stable

Acuite believes JHR group will maintain a 'Stable' business risk profile on account of the extensive experience of the promoters in the agricultural commodity business. The outlook may be revised to 'Positive' in case JHR group is able to achieve significant growth in revenue and profitability while effectively managing its operating cycle. The outlook may be revised to 'Negative' in case JHR group register a decline in revenue or in case of significant deterioration in its profitability or liquidity profile due to higher than expected working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	225.37	150.12	67.38
EBITDA	Rs. Cr.	8.63	8.26	4.02
PBT	Rs. Cr.	1.42	1.07	0.55
EBITDA Margin	(%)	3.83	5.50	5.97
PBT Margin	(%)	0.63	0.71	0.82
ROCE	(%)	9.46	11.90	9.56
Total Debt/Tangible Net Worth	Times	1.43	1.58	6.80
PBDIT/Interest	Times	2.12	1.87	2.12
Total Debt/PBDIT	Times	4.11	3.98	8.18
Gross Current Assets (Days)	Days	109	125	168

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

None

Any other information

None

Applicable Criteria

- Manufacturing entities - <https://acuite.in/view-rating-criteria-4.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <http://www.acuite.in/view-rating-criteria-22.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. Crore)	Ratings/Outlook
16-May-2017	Cash Credit	Long Term	4.00	ACUITE B/Stable (Assigned)
	Term Loan	Short Term	10.00	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	4.00	ACUITE BB-/ Stable (Upgraded from ACUITE B/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.65 (reduced from Rs.10.00 crore)	ACUITE BB-/ Stable (Upgraded from ACUITE B/Stable)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.35	ACUITE BB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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