

Press Release

Malhy And Sons

May 27, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+ (read as SMERA B plus)**' on the Rs. 6.00 crore bank facilities of Malhy And Sons. The outlook is '**Stable**'.

Malhy and Sons (MS) established in 2011 is a Tamil Nadu-based proprietorship concern promoted by Mr. Dhayananth Ganesh. MS is engaged in the processing and trading of spices and pulses including Coriander Seeds, Black Gram, Green Gram, Chillies, Green Peas among others. The processing unit is located at Sattur, Tamil Nadu with capacity of 6300 tonnes per annum. The firm sells its products through distributors spread across Tamil Nadu and Kerala.

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor, Mr. Dhayananth Ganesh possesses more than three decades of experience in the processing and trading of spices and pulses.

- **Favourable demand outlook**

Since pulses are a staple ingredient, the demand outlook is favourable. The softening of food prices is encouraging considering that consumption has been higher compared to the previous two years.

Weaknesses

- **Small scale of operations and decline in revenue**

The scale of operations is small with operating income of Rs.13.64 crore in FY2016 compared to Rs.16.88 crore in FY2015. The decline in revenue is due to fall in production of pulses in FY2015-16. However, good monsoon last year and high prices have triggered a recovery in production. Further, as informed by the management, MS has reported operating income of around ~Rs.21.00 crore for FY2017 (provisional).

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by low networth of Rs.0.58 crore as on 31st March, 2016 as against Rs.0.48 crore in the previous year. The gearing stood at 8.92 times as on 31 March, 2016 as compared to 9.17 times in the previous year. However, the promoter infused unsecured loan (quasi-equity) of Rs. 4.05 crore in FY2016-17 and the same is sub-ordinated to bank. Going forward, SMERA expects the gearing to improve. The interest coverage ratio stood at 1.25 times for FY2016. The TOL/TNW levels have been very high at 32.25 times as on 31 March, 2016 as compared to 26.20 times in the previous year.

- **Working capital intensive operations**

The operations of the firm are working capital intensive, as reflected by high gross current assets (GCA) of 509 days as on 31 March, 2016 as compared to 279 days in the previous year. This is on

account of elongated inventory holding days from 132 in FY2015 to 340 days in FY2016. Further, the average cash credit limit utilisation stood at ~91.72 percent for the last six months ended as 31 March, 2017.

• **Proprietorship constitution**

The firm is exposed to risk of capital withdrawal considering the proprietorship constitution of the firm.

• **Profit margins are susceptible to volatility in raw material prices**

The operating margin declined to 4.26 percent in FY2015 from 8.67 percent in FY2014, due to increase in raw material prices which account for upto ~85 percent of the total cost. The prices of major raw materials i.e. spices and pulses are highly volatile in nature. Hence, the profitability of the firm is susceptible.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm for arriving at the rating.

Outlook: Stable

SMERA believes that the outlook on MS will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm achieves higher than expected growth in revenues and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm registers deterioration in its liquidity profile or financial risk profile due to higher than expected working capital requirement.

About the Rated Entity - Key Financials

For FY2015-16, MS reported net profit of Rs.0.17 crore on operating income of Rs.13.64 crore compared to net profit of Rs.0.16 crore on operating income of Rs.16.88 crore in the previous year. The net worth stood at Rs.0.58 crore as on 31 March, 2016 compared to Rs.0.48 crore 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>
- Trading Entities - <https://www.smera.in/criteria-trading.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B+ / Stable
Warehouse Receipt	Not	Not	Not	2.00	SMERA B+ / Stable

Financing	Applicable	Applicable	Applicable		
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ABOUT SMERA

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