

Press Release

Shanti Mills

06 July, 2017

Rating Assigned



| | |
|--------------------------|---------------------------|
| Total Instruments Rated* | Rs.10.00 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. 10.00 crore bank facilities of Shanti Mills. The outlook is '**Stable**'.

Shanti Mills (SM), established in 2014 is a Karnataka-based proprietorship concern engaged in the processing of rice. The firm procures paddy from local farmers in Raichur, Karnataka and supplies to dealers in Karnataka, Maharashtra, Tamil Nadu, Gujarat and Kerala.

Key Rating Drivers

Strengths

- **Experienced promoters**

The proprietor, Mr. Yeedala Hariprasad possesses experience of around two decades in the rice milling business.

- **Proximity to raw material source**

The processing facility located at Raichur has an installed capacity of 8 metric tonnes of paddy per hour. Also, Karnataka is one of the major rice producing states in India, thus providing proximity to raw material i.e. paddy

Weaknesses

- **Limited track record of operations**

While the firm was established in 2014, commercial operations commenced from September, 2015. The firm reported revenue of Rs. 9.49 crore for FY 2016. However, as informed by the management, SM reported revenue of Rs. 40.00 crore (Provisional) for FY2017.

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by high adjusted gearing of 4.00 times as on 31 March, 2016. For arriving at the adjusted gearing, unsecured loan of Rs. 0.29 crore as on 31 March, 2016 from promoters has been considered as part of equity (same is subordinated to bank debt). The Total outside Liabilities/Total Tangible Networth stood at 4.56 times as on 31 March, 2016. Further, the net worth of the firm is low as the same stood at Rs. 2.21 crore as on 31 March, 2016.

- **Working capital intensive operations**

The operations of the firm are working capital intensive, evident from the stretched gross current asset (GCA) of 220 days for FY2015-16. The procurement of raw material (paddy) is seasonal i.e. during November to December and April to May leading to high inventory during the year end. Further, the liquidity position of the firm is stretched with 100 percent utilisation during the six

months ended 28th February, 2017.

- **Agro climatic risks**

Paddy, the main raw material required for rice processing is a seasonal crop and production of the same is highly dependent upon the monsoon. Thus inadequate rainfall may affect the availability of paddy in adverse weather conditions.

- **Competitive and fragmented rice milling business**

The rice processing industry has low entry barriers leading to intense competition from both the organised as well as unorganised players.

- **Proprietorship constitution**

The firm is exposed to the risk of capital withdrawal on account of its proprietorship constitution.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of SM to arrive at the rating.

Outlook: Stable

SMERA believes that SM will maintain a stable outlook over the medium term owing to the extensive experience of the promoter in the rice milling business. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue and maintains adequate profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of larger-than expected debt funded capex or deterioration in the liquidity profile.

About the Rated Entity - Key Financials

For FY2015-16, SM reported net profit of Rs. 0.11 crore on operating income of Rs. 9.49 crore. The tangible net worth stood at Rs. 2.12 crore as on 31 March, 2016. Further, as informed by the management, SM reported revenue of Rs. 40.00 crore (Provisional) for FY2017.

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 |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA B+/ Stable |

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ABOUT SMERA

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