

Press Release

Shanti Mills

August 22, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 10.00 crore bank facilities of SHANTI MILLS. The outlook is '**Stable**'.

Shanti Mills (SM), a Karnataka-based proprietorship concern, was established in 2014. The firm is 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. The manufacturing unit is located at Raichur district with an installed capacity of eight metric tonnes of paddy per hour.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SM for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced proprietor**

The Proprietor, Mr. Yeedala Hariprasad, possesses experience of around two decades in the rice milling business through his association with other firms.

- **Proximity to raw material**

The manufacturing unit is located in Raichur, which is one of the major rice producing states in India; thus providing proximity to raw material i.e. paddy.

Weaknesses

- **Below average financial risk profile**

The firm has below average financial risk profile, which is marked by low networth, high gearing and moderate debt protection metrics. Networth stood at Rs.2.41 crores against total debt of Rs.11.82 crores as on 31 March, 2018. Gearing stood at 4.90 times as on 31 March, 2018 as against 4.20 times as on 31 March, 2017. TOL/TNW is moderate at 5.01 times as on 31 March, 2018 as against 4.60 times as on 31 March, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 1.82 times and 0.07 times, respectively, in FY2018. Acuité believes that the financial risk profile of the firm is expected to be below average in the absence of major debt funded capital expenditure.

- **Highly competitive and fragmented rice milling business**

SM operates in rice processing industry which has low entry barriers, leading to intense competition from both the organised as well as unorganised players. This limits the bargaining power of players in the industry.

- **Agro climatic risks**

The main raw material required for rice processing is paddy, which 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.

Outlook: Stable

Acuité believes that SM's outlook will remain 'Stable' over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues along with its financial risk profile and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

Liquidity Position

Liquidity of SM is stretched as evident by high utilisation of working capital limits. Net cash accruals stood in the range of Rs.0.70-0.80 crore against minimal repayment obligations. Liquidity is enhanced due to unsecured loans received from the relatives of proprietor. The working capital operations of the firm are moderate as evident by GCA days of 99 in FY2019 (Provisional). The working capital limits in the firm remained utilised on an average of 80-90 per cent during the last year. The firm maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.23 times as on March 31, 2019 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	46.06	40.74	9.49
EBITDA	Rs. Cr.	1.91	1.77	0.86
PAT	Rs. Cr.	0.61	0.40	0.11
EBITDA Margin	(%)	4.15	4.34	9.04
PAT Margin	(%)	1.33	0.99	1.19
ROCE	(%)	12.92	12.76	9.48
Total Debt/Tangible Net Worth	Times	4.90	2.55	4.00
PBDIT/Interest	Times	1.82	1.76	2.22
Total Debt/PBDIT	Times	6.13	2.83	4.56
Gross Current Assets (Days)	Days	103	96	376

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
07-Aug-2018	Cash Credit	Long Term	10.00	ACUITE B+ / Stable (Reaffirmed)
04-Jul-2018	Cash Credit	Long Term	10.00	ACUITE B+ *Issuer not co-operating
06-Jul-2017	Cash Credit	Long 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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