

Press Release

Modern Rice & General Mills (MRGM)

26 July, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 19.50 Cr
Long Term Rating	SMERA BB-/Stable
Short Term Rating	SMERA A4+

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-' (read as SMERA double B minus)** and short term rating of '**SMERA A4+' (read as SMERA A four plus)** on the Rs.19.50 crore bank facilities of Modern Rice & General Mills (MRGM). The outlook is '**Stable**'.

MRGM established in 1981, is a Karnal-based firm engaged in the processing and milling of rice and has processing capacity of 1200 quintals per day.

List of key rating drivers and their detailed description

Strengths

Experienced management

The firm is led by Mr. Vinod Kumar Malik and Mr. Devraj Malik who possess over three decades of experience in the rice processing industry. The long standing presence has helped the firm establish long term relations with customers and suppliers.

Proximity to raw materials

The processing facility of MRGM is located at Karnal, Haryana in close proximity to paddy cultivation areas.

Weaknesses

Below average financial profile

The firm has low net worth of Rs.3.90 crore as on 31 March, 2016 (as against Rs.3.25 crore as on 31 March, 2015). The gearing stood high at 2.33 times as on 31 March, 2016 which deteriorated from 1.23 times as on 31 March, 2015 mainly on account of increase in the utilisation of working capital limits. The interest coverage ratio stood moderate at 1.44 times in FY2016.

Further, the operating margins show a declining trend from 5.53 per cent in FY2014 to 2.58 per cent in FY2016 mainly on account of intense competition in the domestic market resulting in lower realisations.

Working capital intensive operations

Rice processing is a working capital intensive business and is seasonal in nature. The firm has high Gross Current Asset of 102 days mainly on account of high inventory requirements. The average cash credit utilisation stood high at ~97 per cent during January to June, 2017.

SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Agro climatic risks

Paddy which is the main raw material required for rice 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.

Analytical approach: SMERA has considered the standalone financial and business risk profile of the company to arrive at the rating.

Applicable Criteria

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

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook over the medium term on account of its extensive experience in the rice milling business. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profitability while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of larger-than-expected debt funded capex or significant decline in revenues and margins.

About the Rated Entity

MRGM, established in 1981, is a partnership firm engaged in rice milling and processing at Karnal, Haryana. The day-to-day activities of the business are led by Mr. Vinod Malik and Mr. Devraj Malik.

For FY2015-16, MRGM reported net profit of Rs.0.33 crore on operating income of Rs.76.20 crore, as compared to net profit of Rs.0.32 crore on operating income of Rs.68.26 crore in FY2014-15.

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

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	17.00@	SMERA BB-/Stable (Assigned)	-	-	-	-	-	-
Packing Credit**	ST	4.50@	SMERA A4+ (Assigned)	-	-	-	-	-	-
FOBNLC/FOUBNLC/FOBP/FOUBP#	ST	3.00@	SMERA A4+ (Assigned)	-	-	-	-	-	-

@Overall fund based working capital limits should not exceed Rs. 19.50 crore

**Interchangeable with CC

Within Packing Credit Limit

***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	NA	NA	NA	17.00@	SMERA BB-/Stable (Assigned)
Packing Credit**	NA	NA	NA	4.50@	SMERA A4+ (Assigned)
FOBNLC/FOUBNLC/FOBP/FOUBP#	NA	NA	NA	3.00@	SMERA A4+ (Assigned)

@Overall fund based working capital limits should not exceed Rs. 19.50 crore

**Interchangeable with CC

Within Packing Credit Limit

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Reema Gangola, Manager – Rating Operations, Tel:022-67141111 Email: reema.gangola@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.