

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.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smerra.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/FO UBNLC/FOB P/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/FO UBNLC/FOB P/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 |
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| Vinayak Nayak, Head – Rating Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in | Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in |
| Reema Gangola, Manager – Rating Operations, Tel:022-67141111 Email: reema.gangola@smera.in | |

ABOUT SMERA

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