

Press Release

Sri Azhagu Nachiamman Modern Rice Mill (SAMRM)

02 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.7.50 Cr.
Long Term Rating	SMERA B+/Outlook:Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+ plus**' (read as **SMERA B plus**) on the Rs.7.50 crore bank facilities of Sri Azhagu Nachiamman Modern Rice Mill (SAMRM). The outlook is '**Stable**'.

Sri Azhagu Nachiamman Modern Rice Mill, a Kallakurichi (Tamil Nadu) based firm was incorporated in 2010 by Mr. K. Gnanavel. The firm is engaged in the milling of boiled and parboiled rice. The entity has unit located in Kallakurichi (Tamil Nadu) with installed capacity of 45 tons/day.

Key rating drivers

Strengths

Experienced management: SAMRM was established in the year 2010 as partnership firm by Mr. K. Gnanavel. Prior to this business, the partner earlier had experience of around two decades in rice trading business.

Proximity to raw materials: The processing facility of SAMRM is located in Kallakurichi (Tamil Nadu) which is one of the major rice producing states in India, thus providing proximity to paddy and contributes to the total rice requirement of the entity. The entity procures rice from Chidambaram, Virudhachalam, Attur, Mudiyapur, Bhagur (Tamil Nadu) local markets, farmers and dealers.

Weaknesses

Below average financial risk profile: The below average financial risk profile of the entity is marked by low net worth, high gearing levels and modest debt protection metrics. The net worth stood low at Rs.2.22 crore as on March 31, 2017 as compared to Rs.1.99 crore as on March 31, 2016. The gearing has increased from 2.93 times as on March 31, 2016 to 4.00 times as on March 31, 2017 due to increase in utilisation of working capital limits. The entity has short term debt of Rs.8.40 crore and unsecured loans of Rs.0.50 crore as on March 31st 2017. The coverage indicators such as Interest Coverage Ratio (ICR) declined to 1.39 times as on March 31, 2017 as compared to 1.35 times as on March 31, 2016. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.03 times as on March 31, 2017.

Working capital intensive nature of business: SAMRM has working capital intensive nature of operations marked by high GCA days of 98 in FY2017 as against 61 days in FY2016. This is majorly on account of high inventory holding period of 87 days in FY2017 as against 68 days in FY2016. The debtor days stood at 12 days in FY2017 as against 5 days in FY2016. The rice business is a working capital intensive business because of the need to store large quantities of paddy as the harvesting season is during August to October and January to March. Also, entities store rice in order to 'age' which improves its characteristics in terms of taste, aroma etc. and thus fetches better realizations.

Small scale of operations: The entity generated operating income of Rs.37.47 crore in FY2017 as compared to Rs.37.94 crore in FY2016. Operating margins also remained at 2.73 per cent in FY2017 as compared to 2.12 per cent in FY2016.

Analytical approach:

SMERA has considered the standalone financial and business risk profiles of the SAMRM.

Outlook – Stable

SMERA believes that the entity will maintain its stable business risk profile on account of the management's experience in the rice business and proximity to raw materials. The outlook may be revised to positive in case of sustained increase in revenues and accruals while improving its working capital cycle. Conversely, the outlook may be revised to negative in case significant decline in revenues and accruals or in case of further elongation of working capital cycle.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	37.47	37.94	32.51
EBITDA	Rs. Cr.	1.02	0.80	0.82
PAT	Rs. Cr.	0.08	0.02	0.02
EBITDA Margin	(%)	2.73	2.12	2.51
PAT Margin	(%)	0.22	0.06	0.05
ROCE	(%)	8.91	7.56	14.21
Total Debt/Tangible Net Worth	Times	4.00	2.93	3.41
PBDIT/Interest	Times	1.35	1.39	1.44
Total Debt/PBDIT	Times	8.65	7.18	7.77
Gross Current Assets (Days)	Days	98	74	80

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): None

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA B+/Stable (Assigned)

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ABOUT SMERA

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