

Press Release

Bhagwati Rice And Agro Industries (BRAI)

06 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.86 Cr.
Long Term Rating	SMERA BB/Stable (Assigned)

*Refer annexure for details

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) on the abovementioned bank facilities of Bhagwati Rice & Agro Industries (BRAI). The outlook is '**Stable**'.

BRAI, a partnership firm established in 2003 by Mr. Dilip Bhawarlal Sarda and Mr. Govind Bhawarlal Sarda is engaged in the milling, processing and trading of non-basmati rice at Maharashtra. The firm has installed capacity of 58,400 metric tons per annum (MTPA). BRAI sells its products under the 'Super Keshar (HMT rice), Keshar Gold (Steam Rice), Keshar Kali (Kolam) brand names in Karnataka, Kerala, Andhra Pradesh, Tamil Nadu and Maharashtra.

Key rating drivers

Strengths

Established operational track record, experienced management: BRAI is engaged in rice milling since 2003. The partners, Mr. Dilip Bhawarlal Sarda and Mr. Govind Bhawarlal Sarda have experience of around three decades in the rice milling business. SMERA believes that BRAI will continue to benefit from its established position in the market and experienced management.

Growth in revenues: BRAI has registered consistent year-on-year revenue growth during the period under study. The revenue increased to Rs. 81.84 crore in FY2017 from Rs. 71.72 crore in FY2016 and Rs. 69.65 crore in FY2015 on account of increase in demand from Tamil Nadu and Maharashtra.

Further, the firm registered revenue of Rs.68 crore from April, 2017 to December, 2017.

SMERA believes that revenue would further improve in FY2018 owing to the firm's established presence in the market.

Average financial risk profile, comfortable liquidity position: The financial risk profile of BRAI is average marked by networth of Rs.4.24 crore as on 31 March, 2017 as against Rs.2.53 crore as on 31 March, 2016 (The networth comprises interest bearing unsecured loan to the tune of Rs.1.32 crore which is subordinated to bank debt). The gearing improved to 2.61 times as on 31 March, 2017 as against 3.60 times in the previous year on account of additional infusion of funds. The total debt of Rs. 11.07 crore comprises working capital funding of Rs.11.05 crore. The ICR remained modest at 1.48 times in FY2017 and FY2016. The working capital cycle remained comfortable marked by gross current assets (GCA) of 72 days in FY2016-17 as against 71 days in FY2015-16. This was due to holding of inventory of 44 days in FY2017. However the working capital limit has been fully utilised (in peak season) as confirmed by the banker.

Weaknesses

Highly competitive and fragmented industry: The firm operates in the agro processing industry which is highly competitive and fragmented due to several organised and unorganised players. The high competition and low value addition results in low operating margin of 2.29 percent for FY2017 as against 2.49 percent in the previous year. The low profitability in EBITDA is followed by low PAT margins at 0.34 percent for FY2017 as against 0.30 percent for FY2016.

Rice milling is a highly competitive industry due to low entry barriers which results in intense competition from both the organised as well as unorganised players. The firm faces competition from reputed brands such as KRBL, Kohinoor, LT foods.

Agro climatic risks, exposure to risks related to fluctuations in raw material prices: Paddy, 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. The firm is exposed to risks related to fluctuations in raw material prices.

Risk of capital withdrawal: The firm is exposed to risk of capital withdrawal considering its partnership constitution.. However there have been no instances of the same during the period under study.

Analytical approach:

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

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook over the medium term owing to the management's extensive experience in the rice milling business and established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenue and profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue, profitability and accruals or elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	81.84	71.72	69.65
EBITDA	Rs. Cr.	1.88	1.78	1.26
PAT	Rs. Cr.	0.28	0.22	0.20
EBITDA Margin	(%)	2.29	2.49	1.81
PAT Margin	(%)	0.34	0.30	0.28
ROCE	(%)	11.67	13.36	24.47
Total Debt/Tangible Net Worth	Times	2.61	3.60	3.94
PBDIT/Interest	Times	1.48	1.48	1.29
Total Debt/PBDIT	Times	5.78	5.11	6.07
Gross Current Assets (Days)	Days	72	71	60

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-services.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>

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

Rating History for the last three years: None

*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	9.00	SMERA BB/ Stable (Assigned)
Term Loan I	NA	NA	NA	0.18	SMERA BB/ Stable (Assigned)
Term Loan II	NA	NA	NA	0.52*	SMERA BB/ Stable (Assigned)
Proposed	NA	NA	NA	0.16	SMERA BB/ Stable (Assigned)

*Includes sublimit of Capex FLC DP of Rs. 0.32 crore

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ABOUT SMERA

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