

Press Release

GARG RICE MILLS

12 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 13.75 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as SMERA B plus) on the Rs. 13.75 crore bank facilities of GARG RICE MILLS. The outlook is '**Stable**'.

Garg Rice Mill (GRM) is a partnership firm established in 1980 & actively managed by Mr. Radhe Shyam Garg and family, who have a cumulative experience of over three decades in business of processing, milling and trading of rice. GRM processes Basmati as well as Non-Basmati Rice and has a milling capacity of 11500 tonnes per annum. GRM has its processing plant at Link Road, Taraori, Karnal. GRM caters to domestic markets and also exports to countries in Middle East and Europe.

Key Rating Drivers

Strengths

- **Long standing experience of the promoters in the rice industry**

The promoter of Garg Rice Mill (GRM), Mr. Radhe Shyam has more than three decades of experience in the rice industry. Their strong relationship with several customers and suppliers is an added advantage to the business.

- **Proximity to raw materials**

The processing facility of GRM is located in Karnal, Haryana which is proximate to one of the major rice producing state in India. A number of rice mandi's are located in Haryana & Punjab from where GRM is procuring raw material (paddy).

Weaknesses

- **Competitive and fragmented nature of rice manufacturing business**

The rice manufacturing business is marked by entry of several small, medium and big manufacturing players due to high demand of Basmati rice in the local and export countries, which posse's stiff competition in rice manufacturing business. GRM is small size player in the rice processing business due to which it faces stiff competition from other rice manufacturers. Also, the availability of paddy is affected by adverse agro climatic conditions.

- **Weak financial profile marked by high gearing and low profitability indicators**

The financial risk profile of the company is marked by a net worth of Rs.3.14 crore as on 31st March, 2017. The gearing stood at 6.77 times as on March 31st 2017. The gearing stood high mainly on account low net worth and high debt (i.e. Rs.7.19 Crore from relatives & partners & Rs.14.08 Crore of short term debt facilities). The interest coverage ratio stood at 1.43 times. The net cash accrual to total debt (NCA/TD) stood at 0.03 times as on 31st March, 2017.

- **Working Capital intensive nature of operations**

The operations are working capital intensive evident from gross current asset days stands at 140 days in FY17 as against 93 days in FY16. The elongated gross current asset days are on account of stretched inventory days at 83 and debtor days at 58 for FY17. Also, the liquidity position of the firm is stretched with

almost 100% utilisation of cash credit & export packing credit limits.

• Foreign exchange fluctuation risk

The firm is fairly dependent upon exports and its exports contribution to total sales stood at 69% in FY17 while the raw material is completely procured from the domestic markets. With initial cash outlay for sales in domestic currency & significant chunk of sales realization in foreign currency, the firm is exposed to the fluctuation in exchange rates. Though, the firm hedges 50% of its exports receivables through forward contracts, around 50% remains unhedged exposing it to sharp appreciation in the value of rupee against foreign currency which may impact its cash accruals.

Analytical Approach

SMERA has considered the standalone financials of Garg Rice Mills

Outlook: Stable

SMERA believes that GRM will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues amidst intensifying competition in its area of operation, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements and capital expenditures

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	86.05	101.26	93.00
EBITDA	Rs. Cr.	1.74	1.24	2.17
PAT	Rs. Cr.	0.31	0.30	0.28
EBITDA Margin	(%)	2.03	1.23	2.33
PAT Margin	(%)	0.36	0.29	0.30
ROCE	(%)	6.98	5.26	15.83
Total Debt/Tangible Net Worth	Times	6.77	6.25	11.76
PBDIT/Interest	Times	1.43	1.52	1.27
Total Debt/PBDIT	Times	11.57	13.07	10.68
Gross Current Assets (Days)	Days	140	93	127

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

CARE in its rationale dated 22nd Februaury, 2018 stated that:- "CARE has been seeking information from Garg Rice Mills to monitor the rating(s) vide e-mail communications/ letters dated February 05, 2018 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. In line with the extant SEBI guidelines CARE's rating on Garg Rice Mills's bank facilities will now be denoted as CARE B; Stable/ CARE A4; ISSUER NOT COOPERATING."

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.75	SMERA B+ / Stable

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ABOUT SMERA

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