

Press Release

Madhuram Industries Private Limited

January 06, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 20.00 crore
Long Term Rating	ACUITE BB/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.20.00crore bank facilities of Madhuram Industries Private Limited (MIPL). The outlook is '**Stable**'.

Incorporated in the year 2003, Madhuram Industries Private Limited is a Bavla (Gujarat) - based company. The company is promoted by Mr. Nayan Vadilal Thakkar and Mr. Kamlesh Kumar Hiralal Thakkar. The company is engaged in milling and processing of paddy into Non-Basmati rice. Currently, the manufacturing plant has total production capacity of 10 tons per hour. The company sells around 40 percent of their product in domestic market like Surat, Bhavnagar, etc. and export around 60 percent through the third party to countries like South Africa, Sri Lanka, etc.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Madhuram Industries Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Madhuram Industries Private Limited is headed by Mr. Mr. Nayan Vadilal Thakkar and Mr. Kamlesh Kumar Hiralal Thakkar, who have an experience of around two decades in the agro industry. The same has helped the company in establishing healthy relationships with its customers and suppliers. The company caters to customers like JRM Export Private Limited, Algyash Export Private Limited among others with no major concentration in its revenue profile. On the back of the stable and repeated orders by the key customers, the revenues has improved to Rs.82.35 crore in FY2019 from Rs.71.96 crore in the FY2018.

Weaknesses

- **Modest scale of operations and agro climatic risks**

The company has a presence of over 15 years in the industry. Despite its presence in the industry for over 15 years the operations of the company have remained modest marked by operating income of Rs.82.35 crore in FY2019 as compared to Rs.71.96 crore in FY2018. Further, paddy, the main raw material required for rice milling is a seasonal crop and production of the same is highly dependent on the monsoon. Thus

inadequate rainfall may affect the availability of paddy in adverse weather conditions which will in turn impact the financial risk profile of the company.

- **Working capital intensive nature of operations**

Madhuram Industries Private Limited operation is working capital intensive in nature marked by Gross Current Days (GCA) of 106 days in FY2019 as compared to 96 days in FY2018. This is on account of increase in the inventory holding period of 90 days in FY2019 as against 80 days in FY2018. However, the average bank limit utilization stood at 83 per cent for last six months ended November, 2019.

Acuité believes that the working capital operations of MIPL will continue to remain intense on account of high level of inventory holding period.

- **Average financial risk profile**

Madhuram Industries Private Limited's financial risk profile is average, marked by average net worth, high gearing and average debt protection metrics. MIPL net worth is moderate which stood Rs.5.80 crore as on March 31, 2019 as against of Rs.5.42 crore in FY2018.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 3.67 and 4.31 times as on March 31, 2017. The leverage levels has continued but yet has remained high i.e. around 3.45 times as on March 31, 2019. The total debt of Rs.20.02 crore as on 31 March, 2019 consists of long term debt of Rs.0.22 crore, unsecured loans of Rs. 3.98 crores and working capital borrowings of Rs.15.82 crore. The interest coverage ratio (ICR) stood at 1.68 times in FY2019 and NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.04 times in FY2019 whereas Debt to EBITDA stood at 8.20 times in FY2019.

Rating sensitivity factor

- Further deterioration in working capital requirement.
- Improvement in operating income and financial risk profile.

Material Covenants

None

Liquidity position: Stretched

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.84 crore in FY2019 as against maturing debt obligations of around Rs. 0.59 crore during the same period. The cash accruals of the company is estimated to remain around Rs. 0.78 crore to Rs.0.94 crore during 2020-22 against no repayment obligations during the same period. The company's working capital operations are moderately intense marked by increase in the gross current asset (GCA) days of 106 days for FY2019 as against 96 days in FY2018. The average bank limit utilisation stood at 84 per cent for last six months ended November, 2019. The company maintains unencumbered cash and bank balances of Rs. 0.01 crore as on 31 March 2019. The current ratio stands at 1.42 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy net cash accruals against no debt

obligation.

Outlook: Stable

Acuite believes that MIPL will continue to benefit over the medium term due to its long track record of operations and experienced management. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	82.35	71.96
PAT	Rs. Cr.	0.42	0.38
PAT Margin	(%)	0.50	0.53
Total Debt/Tangible Net Worth	Times	3.45	2.89
PBDIT/Interest	Times	1.68	1.79

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to previous three years)

Date	Name of the instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
January 30, 2019	Cash Credit	Long term	14.00	ACUITE BB/ Stable (Reaffirmed)

May 24, 2018	Term Loans	Long term	0.31	ACUITE BB/ Stable (Reaffirmed)
	Proposed Bank Facility	Long term	0.69	ACUITE BB/ Stable (Assigned)
	Cash Credit	Long term	14.00	ACUITE BB/ Stable (Assigned)
	Term Loans	Long term	1.00	ACUITE BB/ Stable (Assigned)

***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-I	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB/ Stable (Reaffirmed)
Cash Credit-II	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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