

Press Release

M J Traders

August 22, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.10.00 crore bank facilities of M J Traders (MJT). The outlook is '**Stable**'.

Incorporated in 2017, M J Traders (MJT) is a Chennai based partnership firm engaged in trading of basmati and non-basmati rice. MJT is promoted by partners Mr. S.Murugesan and Mr. P Jagadeesan. Further, MJT has taken warehouse on rental basis for ten years.

Key Rating Drivers

Strengths

Experienced management

The partners of M J Traders Mr. S.Murugesan and Mr. P Jagadeesan have experience of more than one decade in the rice trading business. With the experience in the rice industry, the promoters have taken a warehouse on lease in December 2016 for a period of ten years; they also bought polishing and sortex machine costing around Rs.1.50 crore, for processing of finer variety of rice from the raw rice they bought from the rice millers / traders. The operations have started in April 2017. In its first full year of operations in FY2018 (refers to financial year, April 1st to March 31st), the firm has reported revenues of Rs.18.0 crores (provisional) supported by promoter's vintage in the rice trading business. Acuité believes that the firm continues to benefit from the promoters experience in the rice trading business in improving its business risk profile.

Weaknesses

Weak financial risk profile

The financial risk profile of the firm is marked by high gearing, total outside liabilities to total net worth (TOLTNW) and modest net worth. Gearing of the firm is high at 5.20 times mainly attributed to modest net worth of about Rs.1.61 crore as on March 31, 2018 (provisional) and low accretion to reserves. Also its TOLTNW is high at 6.0 times due to working capital intensive operations. Its debt is high at Rs.8.38 crores comprising of working capital debt of Rs.8.33 crores, and unsecured loans of Rs.0.05 crores as of March 31, 2018 (Provisional). Debt protection metrics of interest coverage ratio is below-average at 1.23 times, and net cash accruals total debt (NCA/TD) of 0.02 times in FY2018 (provisional). Acuité believes that the financial risk profile is expected to be at similar levels due to modest accretion to reserves and large debt.

Competitive and fragmented nature of industry

The rice business is marked by presence of several small, medium and large players for supply of rice to the government agencies, and for private supplies across the states. Low entry barriers poses new players to enter into the industry thus restricting the pricing flexibility besides government regulations on stock hoarding and pricing. Also, the players risk profile is marked by availability of paddy, which is more prone to climatic and monsoon risks. Acuité believes that the players risk profile continues to be influenced by the fragmented nature of the industry with low profitability margins.

Outlook: Stable

Acuité believes that MJT will maintain a stable outlook on account of management experience in the rice trading business. The outlook may be revised to 'Positive' in case of substantial increase in revenues while improving its profitability and capital structure by infusion of funds. Conversely, the outlook may be revised to Negative in case of further decline in its capital structure on account of stretch in its working capital cycle, or decline in profitability or revenues.

About the Rated Entity - Key Financials

Not Applicable

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

None

Any other information

None

Applicable Criteria

- Trading entities- <https://www.acuite.in/criteria-trading.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to 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	9.50	ACUITE B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+ / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head-Rating Operations Tel: 040-4027 4590 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-6714 1160 rating.desk@acuite.in
Sethu Madhav Analyst - Rating Operations Tel: 022-6714 1128 sethu.madhav@acuiteratings.in	

About Acuité Ratings & Research:

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