

Press Release

Sharda Rice Mill

August 28, 2018

Rating Assigned



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 75.00 Cr. |
| Long Term Rating | ACUITE BB+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE BB plus**) on the Rs. 75.00 crore bank facilities of Sharda Rice Mill. The outlook is '**Stable**'.

The firm was established in 1998 as a partnership firm by Mr. Dilip Doshi, Mr. Tapan Doshi and others and is engaged in milling of non-basmati rice at Nagpur, Maharashtra with installed capacity of 45 tons of rice per hour. The firm is also started trading of pulses in FY2017. The company procures raw material i.e. paddy from the local market and from farmers and sells its products mainly to Southern India and Central parts of India.

Key Rating Drivers

Strengths

• Experienced Management

SRM is engaged in the business of processing of Non-basmati rice and trading of pulses since 1995. SRM is a partnership firm with partners being Mr. Dilip Doshi, Mr. Tapan Doshi among others who collectively possesses experience of more than two decade experience in the rice milling industry. Acuite believes that SRM will continue to benefit from its management's extensive track record and well established distribution channel

• Moderate Financial Risk Profile

The financial risk profile of SRM is moderate marked by net worth (Including Quasi equity of Rs.10.00 crore) of Rs.28.87 crore as on 31 March, 2018 (Prov.) as against Rs.26.34 crore as on 31 March, 2017. The gearing (debt-equity) stood at 2.47 times as on 31 March, 2018 (Prov.) as against 3.60 times as on 31 March, 2017. The sharp increase in gearing is due to infusion of unsecured loans from partners worth Rs.47.95 crore in FY2017. Further the total debt of Rs.71.41 crore as on 31 March, 2018 (Prov.) comprises of Rs.0.35 crore term loan, unsecured loans of Rs.10.07 crore and working capital facility of Rs.60.99 crore. Interest coverage ratio (ICR) stood at 1.44 times for FY2018 (Prov.) as against 1.81 times for FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood at 3.38 times as on 31 March, 2018 (Prov.) Acuite believes the financial risk profile of the firm will remain moderate marked by steady net cash accruals.

Weaknesses

• Decline in Revenue due to decline in trading activity

The revenue has declined in FY2018 (Prov.) to Rs.412.04 crore from Rs.604.67 crore in the previous year. The revenue from trading of pulses stood at Rs.231.56 crore for FY2018 (Prov.) and from processing of rice stood at Rs.178.83 crore as against trading of pulses stood at Rs.445.89 crore and processing of rice stood at Rs.156.79 crore in the previous year.

• Working capital intensive

The operations are working capital intensive marked by Gross Current Asset (GCA) days of 103 for FY2018 (Prov.) as compared to 152 for FY2017. The high GCA days for FY2017 are on account of elongated inventory days of 133 for FY2016-17. The increase in inventory day is due to year end purchase of pulses. Further, the debtor days have increased from 22 days in FY2017 to 38 days in FY2018 (Prov.) The working capital facility is ~95 per cent utilised for last three months ending June 2018.

• Intense market competition

The company is exposed to intense competition in the industry from cheaper products leading to pressure on margins going ahead.

Analytical Approach

Acuite has considered standalone financial and business risk profile of SRM to arrive at the rating.

Outlook: Stable

Acuite believes that the outlook on SRM's rated facilities will remain stable over the medium term on account of its promoters' extensive experience and established presence in the industry. The outlook may be revised to 'Positive' in case of significant growth in revenue and improvement in profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or elongation in the working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 412.04 | 604.67 | 146.55 |
| EBITDA | Rs. Cr. | 10.52 | 12.75 | 6.53 |
| PAT | Rs. Cr. | 3.24 | 4.97 | 2.32 |
| EBITDA Margin | (%) | 2.55 | 2.11 | 4.46 |
| PAT Margin | (%) | 0.79 | 0.82 | 1.58 |
| ROCE | (%) | 0.00 | 14.52 | 13.26 |
| Total Debt/Tangible Net Worth | Times | 0.00 | 6.41 | 1.95 |
| PBDIT/Interest | Times | 1.44 | 1.81 | 1.85 |
| Total Debt/PBDIT | Times | 0.00 | 8.17 | 4.54 |
| Gross Current Assets (Days) | Days | 0 | 152 | 102 |

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 (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 | 35.00 | ACUITE BB+ / Stable |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BB+ / Stable |
| Ad-hoc limits (Fund Based) | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BB+ / Stable |

| | | | | | |
|------------|----------------|----------------|----------------|-------|---------------------|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE BB+ / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.65 | ACUITE BB+ / Stable |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 21.35 | ACUITE BB+ / Stable |

Contacts

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About Acuité Ratings & Research:

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