

Press Release

M D Agro Foods

September 12, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 35.00 crore bank facilities of M D Agro Foods (MDAF). The outlook is '**Stable**'.

MDAF is a Karnal (Haryana) based partnership firm established in 2009 by Mr. Ajay and Mr. Praveen. The firm is engaged in milling of basmati and non-basmati rice. The manufacturing facility is located at Nissing in Karnal (Haryana). The current capacity of the firm is 15 MT per hour and is utilised to the extent of around 60 percent.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of the M D Agro Foods and Mansa Devi Rice Mills to arrive at this rating. The consolidation is mainly on account of same line of business and common management.

Key Rating Drivers

Strengths

- **Experienced Promoters**

The promoters of the firm were earlier engaged in similar business of rice milling through Mansa Devi Rice Mills which was established in 1982.

- **Proximity to raw material**

The key raw material is paddy for rice milling and is present in abundance in northern states such as Punjab, Uttar Pradesh, Uttarakhand and Haryana. The proximity ensures ready supply of raw material.

- **Growth in revenue**

The operating income of the firm increased to Rs.515.42 crore in FY2018 (Provisional) as compared to Rs.302.30 crore in FY2017 in the previous year supported by the market demand. The operating income grew at compounded annual growth rate of 53 percent through 2015 to 2017.

- **Moderate working capital cycle**

The firm has moderate working capital cycle as indicated by Gross Current Asset (GCA) days of 75 in FY2018 (Provisional) as compared to 130 in FY2017. Drop in GCA is mainly due to decrease in inventory days from 109 in FY2017 to 45 in FY2018 (Provisional) majorly because of improved market demand for milled rice. Debtor days in FY2018 increased to 28 from 19 in FY2017.

Weaknesses

- **Moderate financial risk profile**

The group has moderate financial risk profile backed by its net worth of Rs.38.19 crore in FY2018 (Provisional) as compared to Rs.36.80 crore in the previous year. Off the current year's net worth, Rs.24.69 crore is treated as quasi-equity as the same has been subordinated to the bank borrowing. Gearing remains high at 1.48 times in FY2018 (Provisional) as compared to 2.02 times in the previous year. Of the total debt of Rs.56.43 crore, short term debt comprises of Rs.54.80 crore and the balance is in the form of term loan. Total outstanding liability to total net worth ratio (TOL/TNW) is at higher levels at 2.06 times in FY2018 (Provisional) as against 2.24 times in the previous year.

- **Competitive nature of business**

The firm functions in highly competitive industry due to low entry barriers which results in intense competition from both organised and unorganised players in the industry.

- **Agro climatic risks**

Since the firm is engaged in the processing of pulses, an agro commodity, it is highly dependent on agro climatic conditions. The operations and profitability are, hence, exposed to agro climatic risks.

Outlook: Stable

Acuité believes that MDAF will maintain 'Stable' business risk profile on account of the management's experience in the rice business and proximity to raw materials. The outlook may be revised to 'Positive' in case of improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	515.42	302.30	272.46
EBITDA	Rs. Cr.	4.48	5.22	4.40
PAT	Rs. Cr.	0.64	0.29	0.24
EBITDA Margin	(%)	0.87	1.73	1.62
PAT Margin	(%)	0.12	0.10	0.09
ROCE	(%)	4.86	4.89	8.95
Total Debt/Tangible Net Worth	Times	1.48	2.02	2.00
PBDIT/Interest	Times	1.40	1.37	1.54
Total Debt/PBDIT	Times	9.23	12.95	10.46
Gross Current Assets (Days)	Days	75	130	86

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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	30.00	ACUITE BB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in Kunal Khera Analyst - Rating Operations Tel: 022-67141116 kunal.khera@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.