

Press Release

Dhanalakshmi Hi-Tech Modern Rice Mill

January 07, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.30 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 double B minus**) to the Rs. 7.30 crore bank facilities of Dhanalakshmi Hi-Tech Modern Rice Mill (DHRM). The outlook is '**Stable**'.

The Tamil Nadu based, DHRM is a partnership firm engaged in processing paddy into rice. The firm converts non-basmati variety of rice, which is sold under the brand name 'Singam' and 'Karnataka Raja Bhogham'. The firm sources paddy from Karnataka, Telengana and Andhra Pradesh and sells to traders in Tamil Nadu. The firm has a capacity of 30 MT per day.

Analytical Approach

For arriving at the rating, Acuite has considered the standalone business and financial risk profile of DHRM.

Key Rating Drivers

Strengths

- Established track record and experienced promoters**

DHRM was established in 1984 by Mr. D Selvaganesan, Mr. D Thanabalan, Mrs. S Muthurani and Mrs. T Sornalatha. The partners have experience of over three decades in the industry and have established healthy relations with customers and suppliers. Acuite believes that DHRM will continue to benefit from its experienced management and established track record of operations.

- Comfortable working capital management**

The working capital cycle of DHRM is comfortable at 81 days in FY2018 as against 164 days in FY2017. The inventory holding period has decreased to 74 days in FY2018 from 150 days in FY2017. The receivable days are also comfortable at 8 days in FY2018 as against 21 days in FY2017. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

- Average financial risk profile and capital withdrawal risk**

DHRM has average financial risk profile marked by tangible net worth of Rs.4.21 crore as on 31 March, 2018 as against Rs.4.69 crore as on 31 March, 2017. The adjusted gearing stood at 1.38 times as on 31 March, 2018 as against 1.88 times as on 31 March, 2017. The debt of Rs.6.48 crore mainly consists of term loan of Rs.1.53 crore, unsecured loans from family and friends of Rs. 0.68 crore and working capital borrowing of Rs.4.26 crore as on 31 March, 2018. Further, the financial risk profile is susceptible to the inherent risk of capital withdrawal considering its partnership constituency as seen in the past.

- Competitive and fragmented nature of rice processing business**

This business is a highly competitive industry due to low entry barriers which results in intense competition from both the organised as well as unorganised players in the industry. This can also be seen in the low PAT margins of 0.89 percent in FY 2018 and 1.65 percent in FY 2017.

• Agro climatic risks

Paddy which is the main raw material required for rice is a seasonal crop and the production of the same is highly dependent upon monsoon season. Thus, inadequate rainfall may affect the availability of paddy in adverse weather conditions.

Outlook: Stable

Acuite believes DHRM will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the revenues or profit margins, or in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.49	22.62	17.48
EBITDA	Rs. Cr.	1.60	1.31	1.22
PAT	Rs. Cr.	0.30	0.37	0.36
EBITDA Margin	(%)	4.78	5.80	7.00
PAT Margin	(%)	0.89	1.65	2.04
ROCE	(%)	7.59	8.39	10.75
Total Debt/Tangible Net Worth	Times	1.54	2.18	1.40
PBDIT/Interest	Times	2.36	2.16	2.41
Total Debt/PBDIT	Times	4.08	7.79	4.04
Gross Current Assets (Days)	Days	81	164	114

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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	4.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE BB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Salome Farren Analyst - Rating Operations Tel: 02249294025 salome.farren@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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