

Press Release

A Duraisamy Modern Rice Mill

May 03, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 16.00 crore bank facilities of A Duraisamy Modern Rice Mill (ADRM). The outlook is '**Stable**'.

ADRM, established in 1985, is promoted by Mr. D. Udaykumar along with other partners. The firm is engaged in the processing of paddy into rice and is located in Salem city (Tamil Nadu).

About the group firm

Udaykumar Modern Rice Mill, incorporated in 1985, is engaged in the milling and processing of paddy into rice. The plant is located in Salem (Tamil Nadu) spread across two and half acres of land. The firm has an installed capacity of 50 MT per day of paddy which is utilised at about 85 percent. The firm also owns a windmill of 250 KW and is located at Munduvelanpatti in Dharapuram Taluk.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Udaykumar Modern Rice Mill and A. Duraisamy Modern Rice Mill to arrive at the rating basis common management and similar line of business. The two entities together are referred to as 'The group'. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Extensive experience of the partners**

The group is promoted by the partners- Mr. D. Udaykumar, Mr. D. Sukumar, Mr. D Murugesan, Mr. D Padmanabhan, Mr. S Gopinath, Mr. S Ragunath, Mr. U Manikandan, Mr. M Aravind, Mr. P Naveen, and Mr. P. Hariss who have experience of nearly four decades in the rice milling industry. Extensive experience of promoters has helped in building healthy relationship with its suppliers and customers to ensure regular supply, and repeat business. It helped in improving the revenues of the group at a compound annual growth rate (CAGR) of about 6.06 percent from Rs.61.04 crore in FY2016 to Rs.68.66 crore in FY2018. The increase in revenue is attributed to increase in customer base year-over-year. Acuité believes that the promoters' experience, vintage of operations and reputed clientele are expected to support in improvement of its business risk profile over the medium term.

- **Moderate working capital management**

The group's operations are moderate with high Gross Current Assets (GCA) of about 194 days in FY2018 against 167 days in FY2017; high due to high inventory holding period of 164 days in FY2018 against 144 days in FY2017. The peak season for procuring and stocking paddy is March to June. The group procures higher paddy during the peak seasons and keeps it for ageing for value realisation. The group sells to traders and offers credit period of around 20-30 days to its customers. High GCA lead to high utilisation of its bank lines at about 73 per cent for past six months through March, 2019. Acuité believes that the operations continue to be working capital intensive as paddy is available throughout the period with brokers or traders.

Weaknesses

- **Below average financial risk profile**

The financial risk profile is marked by high gearing (debt to equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing is high at 4.46 times as on March 31, 2018 against 5.24 times as on March 31, 2017. TOL/TNW is also high at about 4.94 times in FY2018 compared to 5.40 times in FY2017. The net worth is modest at Rs.8.82 crore as on March 31, 2018 as against Rs.7.04 crore as on March 31, 2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 1.86 times and 0.07 times respectively in FY2018. Net cash accruals for FY2018 stood at Rs.2.64 crore. Further, the group's cash accruals are expected to be in the range of Rs.2.00-2.50 crore with repayment obligations amounting to Rs.0.50-1.00 crore for the period of FY2019-2021, thereby giving adequate cushion. However, the working capital intensive operations and modest net worth continues to constrain the financial risk profile at below-average over the medium term.

- **Fragmented industry and its susceptibility to adverse government regulations and volatility in raw material prices**

The group operates in a fragmented industry with several unorganised and large organised players leading to competition and volatile realisation in prices. Also, the revenues are average at about Rs.68.66 crore in FY2018 within the industry. The scale of operations is primarily constrained by limited installed capacity, availability of paddy, working capital nature and price fluctuations because of unfavorable climatic conditions. Availability of paddy and profitability are susceptible to monsoon, competition, minimum support price of paddy and rice controlled by Government, among others.

- **Risk of withdrawal associated with the partnership nature**

A. Duraisamy Rice Mills and Udaykumar Modern Rice Mills are partnership firms. Any substantial cash withdrawals by the partners are likely to have an adverse impact on the capital structure.

Liquidity Position:

Liquidity profile is moderate as reflected by moderate bank line utilisation. The group has reported cash accruals of Rs.2.64 crore in FY2018. It is expected to generate cash accruals in the range of Rs.2.00-2.50 crore over the medium term, against which its repayment obligations are about Rs.0.50-1.0 crore which gives moderate cushion for the incremental working capital requirements and the liquidity. The group has cash and bank balances of Rs.0.12 crore as on March 31, 2018. Working capital utilisation is about 73.5 per cent on an average for the last six months through March 2019. The current ratio stood at 1.16 times for FY2018. Acuité believes that the liquidity profile continues to be moderate supported by moderate accruals.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook on account of the management's extensive experience in the rice milling business and its established relationships with customers. The outlook may be revised to 'Positive' in case of significant growth in its revenues and improving its profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity – Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	68.66	66.36	61.04
EBITDA	Rs. Cr.	5.95	5.14	3.69
PAT	Rs. Cr.	0.67	0.75	0.21
EBITDA Margin	(%)	8.67	7.75	6.04
PAT Margin	(%)	0.98	1.13	0.34
ROCE	(%)	9.03	9.06	15.18
Total Debt/Tangible Net Worth	Times	4.46	5.24	3.32
PBDIT/Interest	Times	1.86	1.89	1.51
Total Debt/PBDIT	Times	6.43	6.93	7.32
Gross Current Assets (Days)	Days	194	167	154

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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	15.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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