

Press Release

Udayakumar Modern Rice Mill

May 03, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 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. 16.00 crore bank facilities of UDAYAKUMAR MODERN RICE MILL (UMRM). The outlook is '**Stable**'.

UMRM, incorporated in 1980, 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 50MT 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.

About the Group

A. Duraisamy Modern Rice Mill, established in 1985, is promoted by Mr. D. Udayakumar along with other partners. The firm is engaged in the processing of paddy into rice and is located in Salem city of Tamil Nadu.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Udayakumar 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. Udayakumar, Mr. D. Sukumar, Mr. D Murugesan, Mr. D Padmanabhan, Mr. S Gopinath, Mr. S Raghunath, 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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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	14.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE A4+

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavani.sankar.oruganti@acuite.ratings.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.