

Press Release

Shyam Modern Rice Mill

February 11, 2022



Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---------------------------------|-------------------|
| Bank Loan Ratings | 17.00 | ACUITE BB Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 17.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.17.00 Cr bank facilities of Shyam Modern Rice Mill (SMRM; Part of 'Cow Brand Group'). The outlook is '**Stable**'.

The rating reaffirmation on the bank facilities of the group factors in its established track record of operations, experienced management, above-average financial risk profile and efficient working capital cycle. These rating strengths are partially offset by its low profitability margins, highly competitive and fragmented industry affected by agro climatic risks.

About Company

Erstwhile known as 'Shyam & Co.', was established in the year 1978 by Mr. P. Stalin; is engaged in trading of paddy. Later, it was renamed as Shyam Modern Rice Mill (SMRM) and is currently managed by Mr. Nirmal Stalin. Currently, the firm is engaged in milling of paddy and processing of paddy into rice. In the year 1995, the brand name 'Cow Brand' was introduced under Shyam Modern Rice Mill. SMRM's processing facility is located in Tindivanam, Tamil Nadu with an installed capacity of 6 tons per hour (tph).

About the Group

Cow Brand Agro Foods (CBAF) was established in the year 2016. The firm is engaged in milling of paddy and processing of paddy into rice. The paddy processing facilities are located in Tindivanam, Tamil Nadu with an installed capacity of 8 tons per hour (tph). The promoters of the group are Mr. P. Stalin, Ms. S. Jayanthi, Mr. S. Nirmal, Ms. N. Karthika and Ms.N. Megha.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Cow Brand Agro Foods and Shyam Modern Rice Mill to arrive at the rating on the basis of common management and similar line of business. The two entities together are referred to as 'Cow Brand Group'.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The group was established in 1978 by Mr. P. Stalin, who has an extensive experience of over four decades in rice milling industry. The promoters' extensive experience and long track record have helped the group in building established relationships with its suppliers and customers over the years. Over the years, The Group has been able to develop a strong brand presence (Cow Brand), primarily in Tamil Nadu and other South states, which enabled it to achieve a steady increase in its scale of operations to Rs.160 Cr over the years. The group has generated consolidated revenue of Rs.110 Cr for 9M of FY2022. The demand prospects for rice, a staple food grain, remain favourable with India being the world's second largest producer and consumer of rice. Acuité believes that the group will continue to benefit from its experienced management, long track of business operations and well established relationships with clients and suppliers over the medium term.

Above-average financial risk profile

The group's financial risk profile is Above-average marked by moderate capital structure and debt protection metrics. The networth of the group stood at Rs.20.32 Cr as on March 31, 2021 as against Rs.17.84 Cr as on March 31, 2020. The debt-equity ratio stood at 1.42 times as on March 31, 2021 as against 1.75 times as on March 31, 2020. TOL/TNW stood improved from 1.49 times as on March 31, 2021 to 1.89 times as on March 31, 2021 as on account of decline in debt levels and increase in networth. The gearing improved on account of a decrease in debt levels and an increase in networth level on account of the marginal increase in the scale of operations. Debt protection metrics Interest Coverage Ratio (ICR) and NCA/TD stood at 1.72 times and 0.06 times for FY2021 as against 1.66 times and 0.06 times respectively for FY2020. Acuité believes that the financial profile of the group is expected to be at similar levels over the medium term.

Efficient Working capital management

The group's operations are efficient as evident from its Gross Current Assets (GCA) of about 94 days as on March 31, 2021 against 93 days as on March 31, 2020 due to efficient collection of trade receivables and inventory days. GCA days majorly comprises of moderate inventory holding due to seasonality. The group procures the paddy in the peak season and keeps it for ageing for value realisation. The receivable days stood efficient at 13 days for as on March 31, 2020 as against 19 days as on March 31, 2020. The inventory days stood at 81 days as on March 31, 2021 as against 73 days as on March 31, 2020. The group purchases paddy mainly against spot payment; creditor days stood at 5 days and 6 days as on March 31, 2020 (Provisional) and 2019, respectively. The group's bank lines are moderately utilized at around 70 per cent in the past 9 months through December 2021. Acuité believes that group's working capital cycle will remain efficient over the medium term.

Weaknesses

Stagnant revenues and volatile profitability over the past three years

The company's total operating income has remained stagnant in the range of Rs. 150-160 Cr over the past three years and the profit margins EBITDA and PAT are also muted at 3 to 3.50 percent and 0.35 percent respectively over the past three years ended with FY2021. Acuité believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

Highly competitive and fragmented industry affected by agro climatic risks

The agro commodity (rice) industry is highly competitive with multiple players coupled with low entry barriers resulting in intense competition from both the organized as well as unorganized players. Paddy, which is the main raw material required for rice, is a seasonal crop and

adequate and timely availability is highly dependent upon monsoon. Thus, inadequate or erratic rainfall may have a bearing on availability as well as pricing of paddy and have a bearing on the pricing of rice as well as the profitability. Moreover, changes in the Government regulations pertaining to the rice industry can impact the industry dynamics.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material Covenants

None

Liquidity: Stretched

Cow Brand Group's liquidity is stretched with tightly matching NCAs to its repayment obligations. The Group has generated cash accruals of Rs.1.80 to 2.00Cr during the last three years through 2019-21 , while its maturing debt obligations were in the range of Rs.1.50 Cr-2.00 Cr during the same period. The Group is expected to generate cash accruals of Rs.2 to 2.2 Cr through 2022-24 , while its maturing debt obligations are expected to be in the range of Rs.2 Cr during the same period. The shortfall in FY2021 was met through sanction of Guaranteed Emergency Credit Line (GECL) of Rs.5.76 Cr. The average fund-based working capital utilization stood at 70 percent for the past 9months ended December 2021. The Group's has maintained unencumbered cash and bank balances Rs.0.30 Cr and the current ratio stood at 2.48 times as on March 31, 2021. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of low cash accrual as against its repayments.

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 while improving its profitability and maintaining the 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 the deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|-------------|-----------------------|-----------------------|
| Operating Income | Rs. Cr. | 157.83 | 162.07 |
| PAT | Rs. Cr. | 0.54 | 0.58 |
| PAT Margin | (%) | 0.34 | 0.36 |
| Total Debt/Tangible Net Worth | Times | 1.43 | 1.75 |
| PBDIT/Interest | Times | 1.72 | 1.66 |

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

None

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|---------------------------------------|-------------|------------------------|---------------------------------|
| 19 Nov 2020 | Cash Credit | Long Term | 17.00 | ACUITE BB Stable (Reaffirmed) |
| 05 Sep 2019 | Cash Credit | Long Term | 17.00 | ACUITE BB Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|-------------------|-------------------------|--------------------|----------------------|--------------------------|---------------------------------|
| Karur Vysya Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 17.00 | ACUITE BB Stable Reaffirmed |

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About Acuité Ratings & Research

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