



Press Release

Sri Gokulkannan Modern Rice Mill

June 29, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.8.55 Cr.
Long Term Rating	ACUITE B+/Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE B+**' (**read as ACUITE B Plus**) on the Rs.8.55 crore bank facilities of Sri Gokulkannan Modern Rice Mill (SGRM). The outlook is '**Stable**'.

Tamil Nadu based Sri Gokulkannan Modern Rice Mill (SGMRRM) is a proprietorship concern established in the year 2007 by Mr. S. A Ramar. The firm is engaged in milling of paddy and processing of boiled rice. The firm procures the paddy from dealers across Andhra Pradesh, Tamil Nadu, Karnataka. SGMRM has an installed capacity of 11 tons per hour with a capacity utilization of more than 90 percent.

Analytical Approach

Acuité has considered a standalone business and financial risk profile of SGRM to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The firm, established in 2007, is involved in milling of paddy and processing of boiled rice for more than a decade. The promoter is a veteran in the industry with long-standing experience, which leads to steady revenues. The firm had achieved revenue of Rs.45.65 crore in FY 2019 as against Rs.37.47 crore in FY18. The firm had also achieved revenue of Rs. 46.50 crore in FY20 (Provisional).

Acuité believes that the promoter's experiences, vintage of operations, are expected to support in improvement of its business risk profile over the medium term.

Weaknesses

- **Average financial risk profile**

SGRM's financial risk profile is average, marked by low net worth, high gearing (debt-to-equity), and modest debt protection measures. SGRM's net worth has remained low at around Rs.2.44 crore as on March 31, 2019. The net worth levels have remained low due to modest scale of operations and low operating margins, which has resulted in limited accretion to reserves over the last three years through FY 2019. Though, the revenues of the company are expected to remain in the range of Rs.47.00-50.00 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Out of the total debt of Rs.9.75 crore as on 31 March 2019, long term constitutes of Rs.0.47 crore, short term debt of Rs.8.64 crore, unsecured loans constitute of Rs.0.10 crore. The gearing stood at 3.99 times as on 31 March 2019 as against 4.73 times in the previous year. The coverage indicators stood moderate marked by interest coverage of 1.97 times for FY2019 as against 1.95 times for FY2018.

Acuité believes that the financial risk profile of the firm is expected to be at similar levels over the medium term supported by moderate cash accruals.

- **Working capital intensive nature of operations**

The SGRM's operations are working capital intensive marked by Gross Current Assets Days (GCA) of 114 days in FY2019 as compared to 123 days in FY2018. The high GCA days is dominated by high inventory days of 87 days in FY2019 as compared to 94 days in FY2018. The debtor days stood at 29 days in FY2019 as compared to 27 days in FY2018. The firm has utilized about 96 per cent of their working capital limits

over the past six months through May 2020.

• Susceptibility of operating margins to government regulation in raw material prices

The firm primarily processes paddy, which is regulated by the government (Ministry of Agriculture & Farmers Welfare) with an aim to safeguard farmer's income via minimum support price (MSP) mechanism. This MSP is revised over each season of the crop. Further, SGRM has limited flexibility while passing on the raw material price changes to the customers because of fragmented industry and numerous unorganized players in the market. These factors are likely to impinge on the profitability of players such as SGRM over the medium term.

Rating Sensitivity factors

- Significant Improvement in revenues
- Any further stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity

Material Covenants: None

Liquidity Position: Stretched

SGRM's liquidity is stretched marked by low net cash accruals and working capital intensive operations. The firm generated cash accruals of Rs.0.96 crore in FY2019. The cash accruals of the firm are estimated to remain around Rs.0.95-1.20 crore through FY2020-22 against maturing debt obligation of Rs.0.47-0.35 crore during the said period. The firm's operations are working capital intensive as marked by gross current asset (GCA) days of 114 in FY2019. The firm has utilized about 96 per cent of their working capital limits over the past six months through May 2020. The firm's current ratio stood at 0.97 times as on March 31, 2019.

Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of modest net cash accruals.

Outlook: Stable

Acuité believes that SGRM will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	45.65	37.47
PAT	Rs. Cr.	0.44	0.15
PAT Margin	(%)	0.97	0.40
Total Debt/Tangible Net Worth	Times	3.99	4.73
PBDIT/Interest	Times	1.97	1.95

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto 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	8.55	ACUITE B+/Stable

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About Acuité Ratings & Research:

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