

Press Release

Thirumurugan Agro Tech Rice Industries

August 09, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.18.73 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB-**' (**read as ACUITE double B Minus**) on the Rs. 18.73 Cr bank facilities of Thirumurugan Agro Tech Rice Industries (TATRI). The outlook is '**Stable**'.

Thirumurugan Agro Tech Rice Industries is a Dharapuram, Tamilnadu based partnership firm established in December 2016. Mr. Srinivasan C and his mother, Mrs. Dhanalakshmi S are the partners of the firm. The firm is engaged in the business of rice milling and trading. The manufacturing facility is located at Dharapuram. The firm has an installed capacity of 5 tons per hour.

Group Company

Thirumurugan Modern Rice Mill is a Dharapuram, Tamilndu based proprietor ship concern established in 1992 promoted by Mr. R R Chidambarasamy. The firm is engaged in the business of rice milling and trading. The manufacturing facility is located at Dharapuram Tamilnadu with an installed capacity of 3 tons per hour.

Analytical Approach

For arriving at the ratings, ACUITE has considered the consolidated approach and combined the business and financial risk profiles of Thirumurugan Agro Tech Rice Industries (TATRI) and Thirumurugan Modern Rice (TMR). This is because these two companies together referred to as the Thirumurugan group, cater to the same industry, have same management and have operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers

Strengths

- **Extensive experience of partners in in the rice milling business**

The Thirumurugan group is led by Mr.R.R.Chidambarasamy and his Wife Mrs. S Dhanalakshmi and his son MR .C. Srinivasan. The promoter Mr. R.R.Chidambarasamy possesses nearly three decades of experience in the rice milling industry. The extensive experience of the promoters supported by experience has enabled the firm to forge healthy relationships with customers for repeated business. The Group has reported operating income of Rs.59.25 Cr in FY2021 (provisional) as against Rs.59.98 Cr in FY2019. Acuité believes that the firm will continue to benefit from its experienced management and established relationships with its customers in the medium term.

- **Stable and Favourable demand prospects for rice**

The demand prospects of the rice industry are likely to remain good as rice is a staple food grain and India is the world's second largest producer and consumer of rice.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the group is below average marked by leveraged capital structure and moderate debt protection metrics. Thirumurugan group has leveraged capital structure with modest net worth of Rs. 9.25 Cr as on March, 2021 (provisional) against Rs.6.63 Cr as on previous year end. The group's gearing and total Outside Liabilities /Tangible Net worth (/TOLTNW) stood high at to 3.39 times

against 3.87 times as on 31 March 2021 (Provisional) and 5.31 times and 5.99 times as on previous year. The Group's debt protection metrics are moderate marked by interest coverage and Net cash accruals to total debt (NCA/TD) of 2.38 times and 0.08 times as on March, 2021 (Provisional) against 1.79 times and 0.07 times as on previous year end. Acuité believes that the financial risk profile of the firm will continue to remain moderate over the medium term in the absence of any major future debt-funded capex.

• Working capital intensive nature of operations

The Thirumurugan group operations are working capital intensive marked by its high gross current assets (GCA) at 170-255 days during last 3 years ended March 31, 2021 (Provisional). GCA majorly comprises of high inventory holding due to seasonality and stood in the range of 115-166 days and debtor's cycle is stood in the range of 17-34 days during last 3 years ended with FY2021 (Provisional). Its creditor days stood between 6-27 days during last 3 years ended with FY2021 (Provisional). The Group procures the paddy in the peak season and keeps it for ageing for value realisation and it purchases paddy mainly against spot payment and continuous procurement of paddy results in high utilisation of its bank lines at around 84 per cent in the past six months through June 2021. Acuité believes that Group's working capital cycle continues to be at similar levels over the medium term on account of the inventory levels maintained by the entity to cater to spot orders.

• 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 into intense competition from both the organised as well as unorganised players. Paddy which is the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of paddy. The rice milling business remains working capital intensive in nature, with high requirement to stock paddy in season majorly on cash and carry business leading to a relatively higher procurement cost; also the profitability is partly susceptible to the volatile paddy costs and Government regulation of minimum support price (MSP) of paddy besides prone to monsoon and availability of paddy. The Group is further exposed to the risks inherent to a partnership firm; including the capital withdrawal risk, any substantial cash withdrawals by the partners are likely to have an adverse impact on the capital structure.

Rating Sensitivity

- Increase in scale of operations along with profitability margins
- Improvement in capital structure.

Liquidity Position: Adequate

The Group has adequate liquidity marked by moderate net cash accruals (NCA) to its maturing debt obligations and albeit constrained by its working capital intensive nature of operations. Thirumurugan group has generated net cash accruals (NCA) of Rs.1-23-2.60 Cr during FY2019-FY2021 (Provisional) against debt obligation of Rs.0.75-1.75 Cr during the same period. The company is expected to generate net cash accruals (NCA) in the range of Rs.2.50-3.00 Cr against CPLTD of Rs.1.50-2.50 Cr. If any shortfall was met through working capital term loan of Rs.4.77Cr and working capital demand loan of Rs. 0.97 Cr availed by the company during under Covid-19 moratorium period. Further group is maintains unsecured loans of Rs.5.00 Cr for working capital needs. The average fund-based working capital utilization stood at 84 percent for the past 6 months ended June 2021. Thirumurugan group has unencumbered cash and bank balance of Rs.0.62 Cr as on March, 2020 and modest current ratio of 1.22 times as on March 31, 2021. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that the Thirumurugan group will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenue and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case group registers lower than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure or further withdrawal of capital by partners leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	59.25	59.98
PAT	Rs. Cr.	2.60	1.84
PAT Margin	(%)	4.40	3.06
Total Debt/Tangible Net Worth	Times	3.39	5.31
PBDIT/Interest	Times	2.64	1.79

Status of non-cooperation with previous CRA

Not Applicable

Material Covenants

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB-/Stable (Assigned)
Indian Bank	Term Loan-1	19-01-2018	Not Available	19-07-2025	3.60	ACUITE BB-/Stable (Assigned)
Indian Bank	Working Capital Term Loan (GECL)	Not Applicable	Not Applicable	Not Applicable	3.63	ACUITE BB-/Stable (Assigned)
Indian Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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