

September 07, 2017

Mahesh Rice Mills

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	12.00	[ICRA]B Reaffirmed; Stable outlook assigned
Total	12.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed its long-term rating of [ICRA]B (pronounced ICRA B) for the Rs. 12.00-crore¹ fund-based facilities of Mahesh Rice Mill (MRM)². The outlook on the long-term rating is Stable.

Rationale

The rating action factors in decline in operating income in FY 2017 on account of fall in realisations and lower offtake from its key customers; which was, however, accompanied with an improvement in gearing level and net cash accruals.

The rating continues to factor in MRM's weak financial profile, reflected by low profitability metrics, high working capital intensity and weak coverage indicators. The rating also continues to take into account the high intensity of competition in the industry and agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. The rating, however, continues to favourably take into account the extensive experience of the promoters in the rice industry and the proximity of the mill to major rice-growing areas which result in easy availability of paddy.

Going forward, the firm's ability to profitably increase the scale of operations as well as improve capital structure and maintain an optimal working capital intensity will be closely monitored.

Key rating drivers

Credit strengths

- **Experienced management provides a competitive edge** - The promoters and their families have been involved in the business of rice milling, processing and sorting for more than two decades and have gained a thorough knowledge of the market. The long presence in the industry has helped the firm to establish strong relationship with suppliers and customers.
- **Local procurement of raw materials helps save transportation costs** - The firm's key raw material is the basmati variety of paddy, which is mostly procured from the wholesale grain markets in Haryana during the paddy buying season – September to December. However, if required, the firm buys paddy from the market during the off season. The quality and the price of paddy depend on the time of procurement. The price tends to be lower (and the quality better) at the start of harvest as the produce starts coming into the market. Thus, the firm prefers to buy the raw materials during this time. Sometimes, it also buys semi-processed rice from the market.
- **Presence in several markets facilitates selling basmati rice** - The firm sells basmati rice directly to its customers as well as through commission agents. It sells rice both in the domestic and in the international markets. Revenue from exports constitutes around 20-30% of the total income of the firm. Apart from foreign markets, it sells rice in domestic markets such as Uttar Pradesh, Punjab, Himachal Pradesh. Selling in diverse markets helps the firm in buffering the impact of slowdown in any one particular market and lends stability to revenues and accruals.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit weaknesses

- **Financial profile characterised by high gearing, weak debt-coverage indicators and return indicators** - The rice industry is less value additive in nature with relatively low margins. As a result, the firm's profitability is weak and consequently, its return indicators and debt protection metric are modest. Further on account of low net worth the gearing level is also on a higher side.
- **Intense competition limits profitability** - The rice industry is highly competitive and fragmented in nature because of the presence of established players, as well as numerous small players in the unorganised sector. Given the low capex and technical complexity of work, the entry barriers have remained low, resulting in the presence of a large number of small-to-medium scale enterprises. This in turn puts pressure on profitability.
- **Vulnerability to the vagaries of monsoon and other agricultural risks** - Rice being an agricultural commodity is exposed to the vagaries of monsoon and other agricultural risks such as the outbreak of diseases, lower/higher-than-projected production levels (which impact the supply and hence the price), poor storage capacities and inconsistencies in quality. The firm's ability to buy paddy of consistent quality at the right price is the key to success in the rice industry.
- **High working capital intensity impacts liquidity** -The firm offers a credit period of 45-60 days to its customers and has to make payments within 15-30 days to its suppliers. Paddy is a seasonal crop and millers have to buy and stock it from September to December every year, which leads to high levels of inventory and receivables. These factors have resulted high working capital requirements for the firm.

Analytical approach: While assigning the rating, ICRA has taken into consideration MRM's standalone business risk profile, financial risk profile and management profile.

Links to applicable criteria

[Rating Methodology for Issuers in the Indian Rice Industry](#)

About the company

Mahesh Rice Mill (MRM) was established in 1993 as a partnership firm. The firm is primarily involved in the milling of rice with an installed capacity of 3 tonne per hour, which is located in Taraori, Karnal district (Haryana). The firm has a sortex plant with the capacity of 3 tonne/hour and is professionally managed by Mr. Mukesh Goel.

MRM reported a net profit of Rs. 0.12 crore on an operating income (OI) of Rs. 50.21 crore in FY2017 compared with a net profit of Rs. 0.10 crore on an OI of Rs. 62.06 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016(Audited)	FY2017(Audited)
Operating Income (Rs. crore)	62.06	50.21
PAT (Rs. crore)	0.12	0.10
OPBDIT/ OI (%)	4.35%	5.10%
RoCE (%)	9.56%	9.55%
Total Debt/TNW (times)	7.59	6.46
Total Debt/OPBDIT (times)	8.19	7.77
Interest coverage (times)	1.15	1.18
NWC/OI (%)	38%	42%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S.No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				September 2017	December 2016	January 2016	February 2015
1	Cash Credit	Long Term	12.00	[ICRA]B (Stable)	[ICRA]B	[ICRA]B	[ICRA]B

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	12.00	[ICRA]B (Stable)

Source: MRM sanction letters

Contact Details

Analyst Contacts**Sabyasachi Majumdar**

+91 1244545304

sabyasachi@icraindia.com**Manish Ballabh**

+91 1244545812

manish.ballabh@icraindia.com**Shubham Gupta**

+91 1244545823

shubham.gupta@icraindia.com**Gaurav Singla**

+91 1244545366

gaurav.singla@icraindia.com**Relationship Contact****Jayanta Chatterjee**

+91 80 4332 6401

jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax: +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500