

November 11, 2019

Mahateja Rice Mills Private Limited: Ratings Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based/CC	18.00	[ICRA]BB (Stable); Assigned
Long term - Fund Based/TL	3.00	[ICRA]BB (Stable); Assigned
Long Term / Short term –Unallocated	4.00	[ICRA]BB (Stable)/[ICRA]A4+; Assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings positively consider the management's vast experience in the rice industry and the company's presence in a major rice growing area, resulting in easy availability of paddy. The ratings also consider favourable demand prospects of rice with India being the second largest producer and consumer of rice. The ratings, however, are constrained by the modest scale of operations in the rice milling industry with revenues of Rs. 86.48 crore in FY2019, moderate financial risk profile of the company with a gearing of 1.88 times as on March 31, 2019, interest coverage of 2.39 times and NCA/Debt at 9% in FY2019, and thin operating margins owing to intense competition from several small-scale players operating in the rice industry. The ratings note its susceptibility to agro-climatic risks, which impact the availability of paddy in adverse weather conditions and thereby revenues.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that Mahateja Rice Mills Private Limited (MRMPL) will continue to benefit from its extensive track record of operations and healthy demand prospects for rice.

Key rating drivers and their description

Credit strengths

Experience of promoters in rice milling industry – MRMPL's promoters have extensive experience spanning over 17 years in the rice milling industry, resulting in established relationship with customers and suppliers. The company is involved in the processing and trading of rice with a total installed capacity of 1,15,200 MTPA (metric tonnes per annum), which increased from 57,600 MTPA in FY2019. Further, the promoters also operate another rice mill of 2,59,200 MTPA capacity under Manchukonda Agrotech Private Ltd.

Increase in revenues over past five years – The operating income of the company increased to Rs. 86.48 crore in FY2019 from Rs. 50.71 crore in FY2015 primarily on the back of increased sales volume and improved realisation. Despite this, MRMPL's scale of operations continues to remain modest in the rice milling industry.

Presence in major rice growing area results in easy availability of paddy – MRMPL’s milling unit is located in Nalgonda district of Telangana, a major rice growing area, resulting in easy availability of paddy. Demand prospects of the rice industry are favourable as rice is a staple food grain and India is the world’s second largest producer and consumer of rice.

Credit challenges

Moderate gearing and debt protection metrics – The gearing of the company was moderate at 1.88 times as on March 31, 2019, owing to high working capital borrowings. Of the total debt of Rs. 17.36 crore as on March 31, 2019, unsecured loans stood at Rs. 1.38 crore, term loan at Rs. 0.24 crore and working capital loan at Rs. 15.73 crore. The coverage indicators have remained moderate owing to thin profitability margins as reflected by an interest coverage of 2.39 times, Total Debt/OPBITDA of 5.34 times and NCA/Total Debt of 9%, respectively in FY2019.

Intense competition in rice industry – The rice milling industry is characterised by stiff competition amid presence of many small-scale players operating in the Telangana rice market, impacting the margins. The fragmented nature of the industry restricts the firm’s ability to pass on the hike in input costs.

Operations susceptible to agro-climatic risks – Paddy, being an agricultural commodity, depends on rainfall and temperature levels. Any adversities in climatic conditions can influence both the quantity and quality of rice produced. Hence the firm is exposed to various weather-related risks, which could impact the industry dynamics. Meanwhile, fluctuations in supply expose MRMPL to price volatility risks.

Liquidity position: Adequate

MRMPL’s liquidity is adequate, aided by the availability of un-drawn credit facilities from the banking system. The company has Rs. 12.14 crore undrawn credit facilities as of September 2019. Further, the cash flows are expected to be sufficient for servicing the term loan repayments due in the medium term. Absence of capex plans in the near term would also support its liquidity position to an extent.

Rating sensitivities

Positive triggers: ICRA may upgrade MRMPL’s ratings if the company demonstrates a sustained improvement in its capacity utilisation, resulting in higher revenues and profitability margins. Specific credit metrics that may lead to an upgrade of MRMPL’s ratings include interest cover above 2.80 times on a sustained basis.

Negative triggers: ICRA may downgrade MRMPL’s rating if the company reports a decline in revenue, thereby putting pressure on profitability margins. A weakening of interest cover below 2.00 times and Total Outside Liabilities/Tangible Net Worth above 3.00 times on a sustained basis may also exert negative pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Rice Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

Mahateja Rice Mills Private Limited (MRMPL), set up in 2002, is involved in processing and trading of rice. The company has a milling unit in Nalgonda district of Telangana with an installed capacity of 1,15,200 MTPA (16 TPH), which was increased from 57,600 MTPA (8 TPH) in FY2019. The company sells its products primarily in Telangana, Tamil Nadu, Kerala and Maharashtra markets.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	79.33	86.48
PAT (Rs. crore)	0.56	1.04
OPBDIT/OI (%)	3.13%	3.76%
RoCE (%)	5.96%	8.11%
Total Outside Liabilities/Tangible Net Worth (times)	2.32	2.52
Total Debt/OPBDIT (times)	5.36	5.34
Interest Coverage (times)	2.22	2.39
DSCR	1.51	1.77

Source: Mahateja Rice Mills Private Limited and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2020)		Date & Rating 11-November 2019	Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Cash Credit	Long Term	18.00	-	[ICRA]BB (Stable)	-	-	-
2 Term loan	Long Term	3.00	-	[ICRA]BB (Stable)	-	-	-
3 Unallocated limit	Long term/ Short Term	4.00	-	[ICRA]BB (Stable)/ [ICRA]A4+	-	-	-

Amount in Rs. crore

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 [click here](#)

Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	18.00	[ICRA]BB (Stable)
NA	Term Loan	NA	NA	NA	3.00	[ICRA]BB (Stable)
NA	Unallocated	NA	NA	NA	4.00	[ICRA]BB (Stable)/[ICRA]A4+

Source: Mahateja Rice Mills Private Limited

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