



Rating Rationale

Adarsh Rice Mill

29 May 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹10.22 Crores of Adarsh Rice Mill.

Particulars

| Facility | Amount (₹ Crs) | Tenure | Rating* |
|----------------|-------------------|---|--|
| Fund based | 9.22 | Long Term | BWR BB- (Pronounced as BWR Double B Minus) Outlook : Stable |
| Non Fund Based | 1.00 | Short Term | BWR A4 (Pronounced as BWR A Four) |
| Total | 10.22 | INR Ten Crores Twenty Two Lakhs Only | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financials of FY18, provisional financials of FY19 and projected financials upto FY21, publicly available information and clarification provided by the company's management.

The rating draws strength from the extensive experience of the partners in agro commodity industry, strategic location advantage of the rice mill unit and moderate interest coverage ratio. The rating is however constrained by susceptibility of profitability margins to volatility in raw material prices caused by demand-supply scenario and uncertain rainfall, modest scale of operations in the intense competition, modest capital structure and working capital intensive nature of operations driven primarily by high inventory levels.

Going forward, the ability of the Entity to accelerate its scale of operations, increase its profit margins, efficiently manage its working capital and cash flows for timely servicing of interest/debt obligations and strengthening of overall financial risk profile shall be the key rating sensitivities

Description of Key Rating Drivers

Credit Strengths:

- ❖ The partners have extensive experience of around two decades in agro commodity industry. This has helped them in establishing relationships with distributors, merchant exporters and local paddy suppliers and has given them a sound understanding of market dynamics
- ❖ The rice mill unit of the firm is strategically located in Chattisgarh which is one of the largest rice producing states in India
- ❖ The firm has moderate interest servicing capability indicated by ISCR which stood at 1.47x in FY18.

Credit Risks:

- ❖ The price of paddy (key raw material) is highly volatile as it is dependent on demand-supply scenario, monsoon, and crop cycles. Also, since the cost of procuring paddy accounts for the bulk of the production expense, even a slight variation in price can drastically impact profitability.
- ❖ The Indian rice industry is fragmented, with low entry barriers due to limited capital and technology intensity, leading to a highly competitive market. The scale of operations is hence expected to remain modest. TOI has declined in Prov FY19 to ₹34.19 crs from ₹42.59 crs in FY18 on account of poor monsoon leading to shortage in cultivation of paddy.
- ❖ The entity has modest capital structure indicated by Tangible Net worth level which stood at ₹5.34 crs in FY18. Gearing stood high at 1.96x in FY18.
- ❖ Gross Current Assets stood high at 113 days as at FY18 majorly driven by higher inventory levels.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Liquidity Profile

Current Ratio stood modest at 1.29x in FY18. Cash & Cash Equivalent stood at ₹0.07 crs as at FY18. The working capital utilization remained in the range of 90%-95% from the period Nov 2018 to April 2019



Rating Outlook: *Stable*

BWR believes the **Adarsh Rice Mill** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Adarsh Rice Mill is Partnership firm established in 1993 The entity has rice milling or processing unit with an installed capacity of 8 tons per hour based at Raipur, Chattisgarh.

Company Financial Performance

Adarsh Rice Mill reported Total Operating Income (TOI) of ₹42.59 crs and Net Profit of ₹0.10 crs in FY18 as against TOI of ₹40.25 crs and Net Profit of ₹0.06 crs in FY17. In Prov FY19, TOI stood at ₹34.19 crs. Tangible Networth (TNW) stood at ₹5.34 crs and Gearing stood at 1.96x as on 31 March 2018.

Key Financial Indicators

| Key Parameters | Units | 2018 | 2017 |
|-------------------------------|-------|---------|---------|
| Result Type | | Audited | Audited |
| Operating Revenue | ₹ Cr | 42.59 | 40.25 |
| EBITDA | ₹ Cr | 2.25 | 1.88 |
| Net Profit | ₹ Cr | 0.10 | 0.06 |
| Tangible Net worth | ₹ Cr | 5.34 | 5.21 |
| Total Debt/Tangible Net worth | Times | 1.96 | 1.39 |
| Current Ratio | Times | 1.29 | 1.39 |

Rating History for the last three years

| S.No | Instrument /Facility | Current Rating | | | Rating History | | |
|------|--|------------------------------|----------------|--|----------------|--------------|--------------|
| | | Type (Long Term/ Short Term) | Amount (₹ Crs) | Rating | 2018 | 2017 | 2016 |
| 1) | <u>Fund Based</u> Term Loans Cash Credit | Long Term | 1.22 8.00 | BWR BB- (Pronounced as BWR Double B Minus) Outlook : Stable | Not Rated | Not Rated | Not Rated |
| 2) | <u>Non Fund Based</u> LG Limit | Short Term | 1.00 | BWR A4 (Pronounced as BWR A Four) | | | |
| | Total | | 10.22 | INR Ten Crores Twenty Two Lakhs Only | | | |

Status of non-cooperation with previous CRA (if applicable)- Adarsh Rice Mill has not cooperated with CRISIL and ICRA which has published its ratings as issuer not Co-operating vide press release dated 15 Oct 2018 and 24 Dec 2018 respectively. The reason furnished by both the CRAs is non receipt of adequate information for the monitoring of the ratings.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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