



## Rating Rationale

### Gopal Rice Mills

07 Dec 2018

Brickwork Ratings assigns rating for the Bank Loan Facilities amounting to Rs. 24.73 Crs of Gopal Rice Mills.

#### Particulars:

Facility	Amount Rated (Rs in Cr)	Tenure	Rating*
Fund Based Cash Credit	24.73	Long Term	<b>BWR BB (Pronounced as BWR Double B)</b> Outlook: Stable
<b>Total</b>	24.73	INR Twenty Four Crores & Seventy Three Lakhs Only	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#### Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of Gopal Rice Mills (GRM) up to FY18 & other publicly available information and information/clarifications provided by the firm.

The rating derives strength from long experience of the partners of the firm and their established relationship with reputed rice exporters of the region. The rating also gets support from moderate financial risk profile of the firm indicated by its comfortable gearing, net worth, current ratio and low receivables. The rating is further strengthened by sustained aggregate demand of rice as it is consumed as a staple diet in major parts of the world.

The rating is however constrained by the inability of the company to register growth in its revenues because of price decrease of rice in the market for last two years. The rating is further restricted by the presence of high competition in the rice industry resulting in thin margins and limited pricing power of the companies. Further, risks such as abnormal weather conditions impact the produce and result in unpredictable demand supply conditions in the industry.

7 Dec 2018



Going forward, ability of the firm to register growth in its revenues while improving profitability and maintaining the gearing and debt coverage metrics shall remain the key rating sensitivities.

### **Key Rating Drivers:**

#### **Strengths:**

- **Long experience of partners & reputed customers:** GRM was established in 1999. The management has established business relationships with major rice exporters from the region which buy from GRM to export the rice in various international markets.
- **Moderate Financial Risk Profile:** The firm's tangible net worth stood moderate at Rs 12.30 Crores (FY18) while its gearing was 2.53 times as on 31st March 2018. GRM's ISCR stood at 1.16 times in the same period.
- **Better working capital management:** GRM's receivable and payable days stood low at 26 and 10 days respectively as on 31st March 18. The current ratio also remained moderate at 1.55 times (FY18).

#### **Weakness:**

- **Marginal decline in revenues:** The operating income of the firm have reduced from 111.14 Crores (FY17) to Rs 106.82 Crores (FY18) owing to the reduction in price of rice in the market. However, the firm has sold increased quantity of rice in FY18 as compared with FY17.
- **Intense competition & thin margins in the industry:** The rice industry is highly fragmented with large number of organised and unorganised players which results in thin margins. Further, the production depends heavily on favorable climatic conditions. The rice export industry is also exposed to regulatory risks.

#### **Analytical Approach**

For arriving at its ratings, BWR has considered the standalone approach and financial risk profile of the firm only. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

#### **Support from Group Company:**

There is no subsidiary/holding company as reported by the firm

**Liquidity:**

As per audited financials for FY18, GRM had cash balance of Rs 0.70 Lakhs & current investments of Rs 94 Lakhs which mainly consisted of Rs 61 Lakhs pending under VAT & GST returns & Rs 20 Lakhs as security deposit to Electricity Department. The firm normally uses 80-85% of its credit limit in peak season & 70-75% in lien season, leaving it with adequate cash availability in times of need. GRM's Liquidity Coverage Ratio stood at 1.27 times as on 31st March 2018 while its current Ratio stood at 1.55 times. Its DSCR is 0.97 times & Cash Conversion Cycle is of 139 days in FY18. Further, there is no long term debt from banks/NBFC/FIs. The firm only has interest free unsecured loans from family & relatives.

**Rating Outlook: Stable**

BWR believes that GRM's 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 firm registers significant increase in its revenues while also growing its profits. The rating outlook may be revised to 'Negative' if the revenues of the firm decline further in FY19.

**About the Firm:**

Gopal Rice Mills (GRM) was established as a partnership firm by partners Mr. Vinod Kumar, Mrs. Usha Rani, Mr. Shashi Bhushan and Mr. Gourav Singla (30:30:30:10) ratio. The firm is engaged in the milling and processing of basmati and non-basmati rice at Karnal, Haryana and has installed capacity of 7 metric tons per hour. GRM was established in 1999.

**Financial Performance:**

GRM booked total operating income of Rs 106.82 Crores in FY18 as against Rs. 111.14 Crores in FY17. PAT stood at Rs 0.20 Crores both in FY18 & FY17.

Parameters		FY 2018(A)	FY 2017(A)
Total Operating Income	Rs in Cr	106.82	111.14
OPBDIT	Rs in Cr	3.00	3.49
PAT	Rs in Cr	0.20	0.20
Tangible Net Worth	Rs in Cr	12.30	12.70
Total Debt/TNW	Times	2.53	2.16



**Rating History for the last three years:**

Rating in 2018				Rating History		
Facility	Amount Rated (Rs in Crs)	Tenure	Rating	2017	2016	2015
Fund Based Cash Credit	24.73	Long Term	<b>BWR BB (Pronounced as BWR Double B)</b> Outlook: Stable	NA	NA	NA
<b>Total</b>	24.73	INR Twenty Four Crores & Seventy Three Lakhs Only				

**Status of non-cooperation with previous CRA: ACUTE BB- (Issuer Not Cooperating) on 10 Sept 2018**

**Hyperlink/Reference to Applicable Criteria:**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Service Sector](#)
- [Manufacturing Companies](#)

Analytical Contacts	Media
<u>V. K Kukreja</u> DGM- Ratings	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>
	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone: 1-860-425-2742</b>	



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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### **About Brickwork Ratings**

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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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