

RATING RATIONALE

15 Sept 2020

Mukul Overseas Private Limited

Brickwork Ratings revises the Long term rating for the Bank Loan Facilities of ₹ 20.15 crores of Mukul Overseas Private Limited (the company).

Particulars

Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (June'20)	Present
Fund based	13.65	20.15	Long Term	BWR B+ Stable ISSUER NOT COOPERATING^	BWR BB- Stable Upgrade
Total	13.65	20.15	INR Twenty crores and Fifteen lakhs only.		

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

** Details of Bank facilities is provided in Annexure-I

^ based on best available information.

RATING ACTION / OUTLOOK

BWR upgrades the Long Term Rating assigned to Mukul Overseas Private Limited as BWR BB- with Stable Outlook.

The rating draws strength from the extensive experience of the promoters and improved scale of operations. However, the rating is constrained by thin profit margins, presence in an intensely competitive industry and cyclical nature of business, working capital intensive business, Covid 19 effect and average financial risk. BWR believes that the business risk profile of “Mukul Overseas Private Limited” 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 there is significant improvement in revenues, profit margins of the company going forward. The rating outlook may be revised to “Negative” if there is any deterioration in the financial risk profile including liquidity of the company.

KEY RATING DRIVERS

Credit Strengths:

- 1. Extensive Experience of the Promoters:** The company is promoted by Mr. Rajendra Kumar having more than four decades of industrial experience. He is ably assisted by his sons Mr. Mukul Agrawal, Mr. Atul Kumar Agarwal and Mr. Amit Agarwal who are



having sufficient industry experience. The client has a strong relationship with its customers and suppliers.

2. **Improved scale of operations:** There is an increase in revenue in FY19 which stood at Rs. 58.12 crs as against Rs. 46.72 crs in FY18. Gross sales increased by 24.40% in FY19 as against FY18. The main reason for the increase in revenue is due to the expansion of manufacturing facility thereby increasing the production. Though due to Covid-19 lockdown, the production ceased from April'20 till July'20, the revenues generated in FY21 stand at Rs.17.42 crs after the production restarted along with orders in hand of Rs. 6.15 crs.

Credit Weaknesses:

- **Thin profit margins:** The company has thin profitability margins which have not improved since the last four FYs.
- **Presence in an intensely competitive industry and Cyclical Nature of Business::** There is intense competition in the rice milling industry as there are numerous players in the industry. The business is cyclical in nature and the production of rice is highly dependent on the vagaries of the monsoon.
- **Working capital intensive business:** Operations are working capital intensive due to the nature of business. As paddy is a seasonal crop and millers have to buy and stock it from September to December every year and also due to rice ageing process to improve its aroma, the inventory levels in the business are quite high.
- **Effect of Covid-19:** Recent Lockdown due to Covid-19 is expected to have a negative bearing on the industry, however India saw a 23% increase in export of farm produce from April to June compared to the corresponding period last year, with rice and sugar dominating the charts. As per the client, the manufacturing ceased due to Covid 19 lockdown from April'20 till July'20 however the revenues achieved after production restarted stands at Rs. 17.42 crs till date in FY21 along with orders in hand of Rs. 6.15 crs. The client is expecting to meet its projections in FY21.
- **Average Financial Risk:** The net worth (analysed) of the firm remained at modest level at Rs. 4.50 crs in FY19. Total debt/TNW stood high at 4.42x in FY19 and 5.44x in FY20 indicating that debt remains high in comparison with money in the business. DSCR at 0.94x in FY19 is also on a lower side. Working capital cycle remains high at 110 days in FY20 due to high inventory days of 115 days. As such the financial risk profile is average and needs to be improved.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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).

RATING SENSITIVITIES

Going forward, the ability of the company to improve its revenues and financial risk profile would remain the key rating sensitivities.

Positive: Rating may be upgraded in case of substantial improvement in revenues and tangible net worth of the company.

Negative: Rating may be downgraded in case there is deterioration in financial risk profile of the firm including the liquidity of the company.

LIQUIDITY POSITION (Stretched)

The company has Cash & Bank balances of Rs. 0.56 Crs in FY20. Long Term Borrowings of INR 10.36 crs in FY20 includes unsecured loans from family and relatives of directors of INR 4.45 Crores and term loans from PNB of INR 5.40 crores. The company has generated cash surplus of Rs. 1.46 crs as against CPLTD of Rs. 1.04 crs in FY20. Cash credit levels are fully utilised for the last 6 Months. The current ratio is 1.17x in FY20. Working capital cycle remains high at 110 days in FY20 due to high inventory days of 115 days.

Holding/Subsidiary Company: NA

COMPANY PROFILE

Mukul Overseas Pvt Ltd is a private limited company incorporated in 2014 for operating Rice Processing Unit in Mainpuri, UP. The company was incorporated by conversion of a partnership firm (M/s Mukul Overseas) into a private limited company. The promoters had been running the partnership firm M/s Mukul Overseas since 1st April 2012. They purchase paddy from various sources like mandi and directly from farmers and process it to convert it to basmati rice and bran. Total operating capacity of the plant in Mainpuri is 38,400 MT and capacity utilisation is at 64% in FY20 .

KEY FINANCIAL INDICATORS (Rs in crs)

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	46.72	58.12
EBITDA	₹ Cr	2.84	2.68
PAT	₹ Cr	0.09	0.11
Tangible Net worth (Analysed)	₹ Cr	4.98	6.57
TOL/TNW	Times	5.24	4.26

Current Ratio	Times	1.17	1.27
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KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: None

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : CRISIL BB-Stable Issuer Non Cooperating as on 22nd June 2020.

RATING HISTORY (FOR THE LAST THREE YEARS INCLUDING WITHDRAWALS AND SUSPENDED)

Facility	Current Rating (2020)				Rating History		
	Type	Amount (₹ Crs)	Sep' 20	June 2020	2019	2018	2017
Fund Based	Long Term	20.15	BWR BB- (Stable) Upgrade	BWR B+ Stable Downgrade Issuer did not cooperate*	-	BWR BB- (Stable) Assigned	NA
Total		20.15	INR Twenty crores and Fifteen lakhs only.				

* based on best available information.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

[General Criteria](#)

[Approach to financial ratios](#)

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Mukul Overseas Private Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab National Bank	Cash Credit	15.00	-	15.00
		Term Loan I	1.53	-	1.53
		Term Loan II	0.55	-	0.55
		Term Loan III	3.07	-	3.07
TOTAL					20.15

INR Twenty crores and Fifteen lakhs only.

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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.

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