

## Rating Rationale

### Shree Hans Rice & General Mills

27 Nov 2018

**Brickwork Ratings reaffirms the ratings for the bank loan facilities of Shree Hans Rice & General Mills (SHRGM or the firm).**

#### Particulars

Particulars	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Previous Rating (November-2017)	Present rating
Fund Based				
Working Capital	72.50	64.50	BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable	<b>BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable Reaffirmed</b>
Term Loan	1.91	0.70		
Non Fund Based				
Non Fund Based Limit	0.48	0.28	BWR A4 (Pronounced as BWR A Four)	<b>BWR A4 (Pronounced as BWR A Four) Reaffirmed</b>
<b>Total</b>	<b>74.89</b>	<b>65.48</b>	<b>(INR Sixty Five Crores and Forty Eight Lakhs Only)</b>	

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

#### Rating Action: Reaffirmation of the rating at BWR BB-/A4/Stable

##### Rationale:

The ratings reaffirmation takes into account the performance of SHRGM during the period FY18 which has remained stable. This has, however, been accompanied by high debt levels in the form of working capital requirements resulting in a deterioration in the capital structure.

The ratings are further constrained by the highly competitive and low value-adding services of the rice milling industry, which, coupled with the company's limited pricing power and moderate scale of operations, has resulted in relatively weak profitability and financial indicators. BWR also takes note of the vulnerability of the firm's operations to agro-climatic risks, which can affect the pricing and paddy availability. However, the ratings positively factor in the extensive experience of the partners, who have been in the rice processing industry for over three decades;

the proximity of the mill to a major rice-growing area, which results in easy availability of paddy.

**Key Rating Drivers:**

**Credit Strengths**

- a) Experienced partners with long industry presence
- b) Presence in a major rice growing area ensures easy availability of paddy
- c) Good demand prospects as rice is a staple food grain and India is world’s second largest producer and consumer

**Credit Weaknesses**

- d) Below Average financial risk profile of the company marked by weak debt protection metrics with ISCR of 1.28 times in FY18 as against ISCR of 1.32 times in FY17.
- e) Weak profitability margins with net profit margin of 0.68% in FY18 as against 0.76% in FY17.
- f) High gearing (TOL/TNW ratio) of 4.63 times in FY18 which has improved from 5.51 times in FY17.
- g) Partnership constitution of firm which exposes it to risks of continuity and withdrawal of capital.
- h) Stiff competition due to low-entry barriers, which has resulted in the presence of numerous established players and a large base of unorganized small players
- i) Agro-climatic risks affect paddy availability

**Rating Outlook: Stable**

BWR believes the **Shree Hans Rice & General Mills** 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 company increases its scale of operations significantly along with improving its profitability margins. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

**Analytical Approach:**

BWR has factored in the standalone business parameters and financial risk profile of the company to arrive at the rating. Reference may also be made to the Rating Criteria hyperlinked below.

**About the Firm**

Shree Hans Rice & General Mills (SHRGM) a partnership firm, was established in 1980, and is primarily engaged in milling of basmati rice, with its milling unit located in Taraori, Karnal, in close proximity to the local grain market. The firm has a milling and sorting capacity of 12 tones per hour.

**Firm Financial Performance**

<b>Key Financial Parameters</b>	<b>FY17(A)</b>	<b>FY18(A)</b>
<b>Total Operating Income (Rs. Crs)</b>	155.48	155.22
<b>EBIDTA (Rs. Crs)</b>	7.46	6.58
<b>PAT (Rs. Crs)</b>	1.19	1.06

<b>D/E (times)</b>	4.25	3.73
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The tangible net worth of the firm stood at Rs. 14.86 Crs as on 31-3-2018.

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

SI. No.	Instrument/Facility	Current Rating (2018)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	November 2017	2016	2015
1	Working Capital	Long Term	64.50	BWR BB-/Stable	BWR BB-/Stable	NA	NA
2	Term Loan	Long Term	0.70	BWR BB-/Stable	BWR BB-/Stable		
3	Non Fund Based Limit	Short Term	0.28	BWR A4	BWR A4		
Total			65.48	(INR Sixty Five Crores and Forty Eighty Lakhs Only)			

**NA: Not Available**

**Status of non-cooperation with previous CRA (if applicable): Reason and comments:** Not Applicable

**Any other information:** NIL

**Hyperlink/Reference to applicable Criteria**

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

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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.

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