



## Rating Rationale

Sri Palani Murugan Modern Rice Mill

17 Dec 2018

**Brickwork Ratings revises/reaffirms the ratings for the Bank Loan Facilities of ₹. 7.93 Crores of Sri Palani Murugan Modern Rice Mill.**

### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (June, 2018)	Present (December, 2018)
Fund based	8.04	7.93	Long Term	<b>BWR B</b> (Pronounced as BWR Single B) (Outlook: Stable)	<b>BWR B</b> (Pronounced as BWR Single B) (Reaffirmation) (Outlook: Stable)
<b>Total</b>	<b>8.04</b>	<b>7.93</b>	<b>INR Seven Crores and Ninety Three Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

### Ratings: Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the firm's audited financial statements upto FY18 provisional financial statements as on 30th November 2018 and publicly available information and the information/clarifications provided by the firm.

The ratings draws strength from experienced management in the rice business, moderate current ratio and long standing relationship with customers . However, the rating is constrained by low tangible net worth, high gearing ratio, low DSCR, thin net profit margins and working capital intensive nature of operations. Further being a partnership firm, any withdrawals of the capital by the partners for any contingencies would adversely impact the capital structure which would be a rating sensitivity.

Going forward, the ability of the firm to increase its operating margins, profitability and manage its working capital efficiently will be the key rating sensitivities.



## Description of Key Rating Drivers

### Credit Strengths:

- **Experience of Management:** Sri Palani Murugan Modern Rice Mill is a partnership concern whose partners are Mr.Ponnambalam, Ms.P.Vennila, Mr.P.Raja. It is a family run business. Mr.Ponnambalam and Ms.P.Vannila are the parents of Mr.P.Raja. Mr.Ponnambalam and Ms.Vennila have more than 20 years of experience in the rice industry
- **Moderate liquidity profile:** Current Ratio is moderate at 1.45 times in FY17 and 1.16 in FY18
- **Long relationship with customers:** The firm's major customers have been with them for more than 10 years. As a result there is a healthy order book with repeat orders from its customers while acquiring new clients every year

### Credit Risks:

- **Low Tangible Net Worth:** Tangible net worth is very low at Rs.2.12Cr in FY18
- **High Gearing Ratio:** The firm is geared at high levels at 3.04 times in FY17 and 3.74 times in FY18
- **Low DSCR:** DCSR is marginally above 1 at 1.06 times as on 31st March, 2018 indicating that there will be strain on the repayment obligation
- **Thin Net Profit Margins:** Profit margins are thin at 0.31% in FY18 due to high cost of raw materials and also the firm's limited ability to pass on the increase in raw material prices to its customers due to commodity nature of the product
- **Working Capital Intensive nature of Operations:** Operations of the firm are working capital intensive as can be observed from its high days of inventory at 85 days and high conversion cycle at 80 days in FY18, be the product is seasonal in nature
- **Constitution of the entity as a partnership firm:** Sri Palani Murugan Modern Rice Mill being a partnership firm, is exposed to inherent risk of capital withdrawal at the time of personal contingency which will affect its capital structure

## 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).

### Rating Outlook: Stable

BWR believes the **Sri Palani Murugan Modern 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

Mr.Ponnambalam has established the unit at Thuraiyur as a proprietorship concern in the name of Sri Palani Murugan Stores and later on, reconstituted as a partnership firm in 2009 in the name “Sri Palani Murugan Enterprises” with three partners viz. Mr.Ponnambalam, Ms.Vennila and Mr.Raja. It is a family run business. Mr.Ponnambalam and Ms.P.Vannila are the parents of Mr.P.Raja and have more than 20 years of experience in the rice industry. The firm’s main activity is purchasing and processing of paddy to produce rice such as Biriyani rice, ponni rice, red rice, double boiled rice etc.

Firm’s current operating capacity is at 70 tonnes/day. The firm has installed new machinery in July, 2018. Operating capacity increased by an additional 50 tonnes per day. The firm has strong and long standing relationship with its customers (more than 10 years). There are around 25 employees working in the rice mill. The average price range at which it purchases paddy from its suppliers is between Rs.16.00-Rs.25.00 per kg depending on the type of rice to be produced. The selling price range per kg of rice ranges from Rs.32.00 to Rs.50 per kg depending on the type of rice produced

### Company Financial Performance

The firm has reported a net revenue (from operations) of Rs.31.01Cr in FY17, Rs.36.45Cr in FY18. Net profit margin reported at 0.25% in FY17 and 0.31% in FY18. The tangible net worth stood at Rs.2.12Cr as at the end of March 31, 2018

### Rating History for the last three years

S.No	Instrument /Facility	Current Rating (December, 2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	2017	2016
	<b>Cash Credit</b>	Long Term	7.00	<b>BWR B (Reaffirmation) (Outlook:Stable)</b>	<b>BWR B (Outlook: Stable)</b>	<b>NIL</b>	<b>NIL</b>
	<b>Term Loan</b>	Long Term	0.93			<b>NIL</b>	<b>NIL</b>
	<b>Total</b>		<b>7.93</b>	<b>₹ Seven Crores and Ninety Three Lakhs Only</b>			

### Key Financial Indicators

Key Parameters	Units	As on 30/11/2018	2018	2017
Result Type		Provisional	Audited	Audited
Operating Revenue	₹ Cr	26.99	36.45	31.01
EBITDA	₹ Cr	0.40	0.83	0.81
PAT	₹ Cr	0.10	0.11	0.08
Tangible Net worth	₹ Cr	2.22	2.12	2.01
Total Debt/Tangible Net worth	Times	3.48	3.74	3.04
Current Ratio	Times	1.24	1.16	1.45

### Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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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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