Mubarak Overseas Private Limited

December 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.56	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term Bank Facilities	45.00 (Reduced from 50.00)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**55.56 (₹ Fifty-Five Crore and Fifty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The retention in the ratings assigned to the bank facilities takes into account its low profitability margins albeit moderate scale of operations, weak financial risk profile marked by weak debt coverage indicators and high gearing. The rating also consider susceptibility to vagaries of nature, high degree of government control and competitive nature of the industry. However, these rating weaknesses are partially offset by experience of promoters, diversified customer base and established network base and moderate operating cycle.

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profitability margins above 3% on sustained basis.
- Improvement in GCA above Rs. 3.00 crore on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in overall gearing above 3.50x on sustained basis.
- Deterioration in operating cycle beyond 90 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Low profitability margins

The total operating income of the group has decreased by ~7.8% from Rs. 637.87 crore for FY21 to Rs. 588 crore in FY22. The revenue of group has reduced on account of decline in the sales realization for the company. The increase in FY21 was mainly on account of one big export order amounting Rs.38 crore received by the company. Total income of the group has reduced, however, PBILDT margin has improved but remained low at 1.69% during FY22 (PY: 1.53%), while PAT margin has also increased and stood at 0.30% for FY22 as against 0.27% for FY21.

Weak financial risk profile

The group has leverage capital structure marked by high overall gearing of 2.97x as on March 31, 2022 as against 3.01x as on March 31, 2021, which has improved on account of improvement in the net-worth base of the company. The debt service coverage indicators also remained weak and deteriorated, as reflected by total debt to PBILDT and total debt to GCA 9.68x and 48.36x respectively during FY22 as against 9.53x and 46.42x respectively during FY21. The interest coverage ratio stood at 1.31x for FY22 (PY: 1.26x).

Fragmented and competitive nature of industry

The competitive nature of the product i.e. rice makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. There are several small-scale operators which are not into end-toend processing of rice from paddy, instead they merely complete a small fraction of processing and dispose-off semiprocessed rice to other big rice millers for further processing. Furthermore, due to low entry barrier and the concentration of rice millers around

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the paddy growing regions makes the business intensely competitive. The highly fragmented and competitive nature of industry put pressure on the profit margins of the companies.

Susceptibility to vagaries of nature

Rice being mainly a Kharif crop is a seasonal crop and is cultivated from June-July to September-October, and the peak arrival of crop at major trading centers begins in October-November. The paddy output is dependent on the monsoon among other factors. Unpredictable weather conditions could affect the domestic output and result in volatility in the output and prices of paddy and rice. The firm is thus exposed to fluctuation in prices as paddy is a seasonal crop and thus susceptible to supplyside constraints like seasonal nature and exposure to the vagaries of monsoon. However, to mitigate commodity price risk, the firm procures rice and paddy only on confirmation of order. The firm supplies rice and paddy only to domestic customers and hence is not exposed to any foreign currency fluctuation risk.

High degree of government control

Paddy and Rice prices are regulated by the government to safeguard the interest of farmers. The farmers bring their produce to their nearby grain markets that are sold under auction. The government has scrapped minimum export price (MEP) on basmati rice which may further intensify the stiff competition. Further frequent changes in the government policies regarding imposition of export tax, restriction on export of non-basmati rice and minimum export price are inherent risks for all rice processors.

Key Rating Strengths

Experienced Promoters

Ramjilal group's promoters include Mr Pradeep Gupta, Mr Ashish Gupta, Mr Nimesh Gupta and Mr Shivam Gupta. The promoters are well qualified and have been associated with the group since inception. Mr Pradeep Gupta looks after the finance function, while Mr Ashish Gupta has his expertise in sales and procurement. Over the years, promoters have developed relations with the customers and suppliers, which is expected to benefit the group in the long run.

Diversified customer base and established network base

The group is engaged in milling, processing and trading of rice. It has wide customer base both domestic and foreign markets. Approximately 12% of the total sales of MOPL in FY22 is export sales (PY: 25%) and remaining to the domestic customers (all the sales made by Ramji Lal & Sons and Ramji Lal and Behari Lal are in the domestic market). The group exports to U.K., Kuwait, Israel, Dubai, Russia and Switzerland while domestically it supplies to different states including Uttar Pradesh, Tamil Nadu, Delhi, Gujarat, Haryana, Punjab, Rajasthan, West Bengal, Karnataka, Kerala, and Andhra Pradesh, this signifies the geographically diversified customer base. The group sells to customers via brokers while paying commission on the trade. The middlemen in the chain assure timely and secure payments.

Moderate operating cycle

The operating cycle of the group has remained stagnant at 75 days in FY22. The inventory holding period has increased to 52 days in FY22 as against 35 days in FY21 this increase was partially due to increase in the finished goods inventory and increase in the price of rice in the market, however collection period reduced to 34 days in FY22 from 37 days in FY21. The average creditor period of the group remained stable at 11 days in FY21 (PY: 11 days).

Liquidity: Stretched

The liquidity of the company is stretched marked by 96% utilization of working capital limits by the company. The cash accruals of the group remained low at Rs. 1.99 crore in FY22 however company don't have any major term liability in FY23 as repayment of GECL loans will start from FY24. Operating cycle of company elongated though remained moderate at 75 days during FY22 (PY: 61 days). Further, current ratio and quick ratio of the company stands at 1.26x and 0.54x.

Analytical approach: Combined

Mubarak Overseas Pvt Ltd (MOPL), Ramji Lal & Sons (RLS) and Ramji Lal Behari Lal (RLBL) are into similar line of business with common promoters and management, credit risk assessment has been conducted based on a group approach by combining the financials of all the entities.

Applicable criteria

Policy on default recognition

Consolidation

[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Manufacturing Companies](#)
[Wholesale Trading](#)
[Policy on Withdrawal of Ratings](#)

About the Company

The Ramjilal group was founded by Babulal ji Gupta and his sons in year 1998 as a rice trading business. In year 2009, the group installed a rice processing and packing plant with three sorting units and two packing units in Alipur. Later in year 2014, another plant in Gannaur was installed which had milling, processing and packing facility with two parallel lines. The facility in Alipur has installed capacity of producing 1,29,600 MT/annum while the facility at Gannaur has the capacity of 69,120 MT/annum. The group manufactures various kinds of basmati Rice which include Brown basmati, parboiled basmati, 1121 basmati and traditional basmati and sells it under their brand name Mubarak Rozana, Pride, Delight and Azooba. The Ramji Lal Group majorly deals in manufacturing and trading of rice however Ramji Lal Behari Lal also deals in trading of Atta and Maida

Brief Financials (₹ crore)*	FY21 (A)	FY22 (A)	H1MFY23 (Prov.)
Total operating income	637.87	588.00	400.00
PBILDT	9.73	9.94	NA
PAT	1.70	1.76	NA
Overall gearing (times)	3.01	2.97	NA
Interest coverage (times)	1.26	1.31	NA

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	2026	10.56	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	45.00	CARE BB; Stable	-	1)CARE BB; Stable (30-Sep-21) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (01-Apr-21)	1)CARE BB; Stable (22-Dec-20)	1)CARE BB; Stable (26-Sep-19)
2	Fund-based - LT-Term Loan	LT	10.56	CARE BB; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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