CareEdge RATINGS

Mahant Overseas

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	52.93	CARE B-; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE B+; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	0.07	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING*	LT rating downgraded from CARE B+; Stable and ST rating reaffirmed and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. (CARE Ratings) has been seeking No Default Statement (NDS) from Mahant Overseas to monitor the ratings vide e-mail communications dated, August 14, 2024, September 16 ,2024, October 01,2024 and numerous other mails and phone calls. However, despite our repeated requests, the company has not provided the no default statement for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Mahant Overseas bank facilities will now be denoted as CARE B-; Stable/ CARE A4; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of the non-availability of requisite information due to non-cooperation by Mahant Overseas with CARE Ratings Ltd.'s efforts to undertake a review of the ratings outstanding. CARE Ratings views information availability risk as a key factor in its assessment of credit risk. Further, the ratings are constrained on account of small and fluctuating scale of operations, working capital intensive nature of operations driven by high inventory levels owing to the seasonality of the availability of basmati paddy, leveraged capital structure and weak debt coverage indicators. The ratings is further, constrained by competitive and fragmented nature of industry and vulnerability of international trade to changes in government policies, vulnerability of agro-climatic risks, constitution of entity being partnership firm, and foreign exchange risks. The ratings, however, draws comfort from the experienced partners and moderate profitability margins.

Analytical approach: Standalone

Outlook: Stable

Detailed description of key rating drivers:

At the time of last rating on March 11, 2024, the following were the rating strengths and weaknesses

Key weaknesses

Small and fluctuating scale of operations

The firm's scale of operations continues to remain small and fluctuating as marked by total operating income (TOI) and gross cash accruals (GCA) of Rs.84.36 crore and Rs.0.79 crore, respectively, in FY23 (refers to the period April 1 to March 31) as against Rs.69.42 crore and Rs.0.82 crore respectively, in FY22. Nevertheless, the scale remains small; it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Moreover, the firm's scale of operations remained fluctuating for the period FY21-FY23 (refers to the period April 1 to March 31). TOI registered decline in FY22 over FY21 and thereafter improved in FY23 on account of higher intake from its existing customers Further, the firm has achieved total operating income of Rs. 65.00 crores in 10MFY24 and is expected to book total operating income of more than Rs.90.00 crore in FY24.

Leveraged capital structure and weak debt coverage indicators

The debt profile of the firm comprised of term debt to the tune of Rs 9.05 crores, working capital limit utilized the tune of Rs 44.19 crores and unsecured loan of Rs.1.80 crores as against tangible net worth of Rs. 6.77crores. The unsecured loan to the tune of Rs. 3.43 crores in FY23 are classified as quasi equity as the same is subordinated to debt as per sanction letter. Further,

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

the capital structure of the firm stood leveraged as marked by overall gearing ratio of 5.40x as on March 31, 2023, on account of high debt level of the firm against small tangible net worth base. The capital structure is expected to remain leverage and in line with the previous year levels over the medium term. Furthermore, owing high debt levels and low GCA levels, the debt coverage indicators stood weak as marked by the total debt to GCA and interest coverage ratio of 69.73x and 1.22x respectively in FY23 as against 76.58x and 1.11x respectively in FY22

Working capital-intensive operations
The operations of MO are working capital intensive as marked by high gross current asset days of 287 days in FY23 due to high inventory holding period. Being in the rice milling business, the firm is required to build up adequate raw material inventory during the peak paddy procurement season (November to January) for smooth running of its production processes throughout the year. Further, the firm is also required to maintain adequate inventory of finished goods to ensure prompt delivery to its customers resulting in an average inventory holding period of around 266 days for FY23. Further, being present in a highly competitive industry, the firm normally extends credit period of around 1-2 month to its customers resulting an average collection period of 54 days in FY23. On the other hand, the procurement of paddy is done mainly on cash basis. However, for consumables the firm receive a credit period of around a month resulting an average payable period of 31 days in FY23. The average utilization of the working capital limits remained around 80-85% for the past 12 months period ending February 2024. However, it remained fully utilized during peak season (November to January).

Constitution of the entity being a partnership firm
MO's constitution being a partnership firm has the inherent risk of possibility of withdrawal of capital by the partners at the time of personal contingency and the firm being dissolved upon the death/retirement/insolvency of partners. Moreover, the partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factor affecting the credit decision of lenders.

Fragmented and competitive nature of the industry coupled with high level of government regulation
The commodity nature of the product makes the industry highly fragmented, with numerous players operating in the unorganized sector with very less product differentiation. There are small scale operators which are not into end-to-end processing of rice from paddy, instead they merely complete a small fraction of processing and dispose-off semi-processed rice to other big rice millers for further processing. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive and limits the pricing flexibility of the industry participants. Furthermore, the raw material (paddy) prices are regulated by the government to safeguard the interest of farmers which limits the bargaining power of rice mills over the farmers. The prices for finished products are market determined while the cost of raw material is fixed by Government of India through the MSP (Minimum Support Price) mechanism, thereby restricting pricing flexibility and rendering the profitability margins vulnerable, especially in times of high paddy cultivation. Due to high competition coupled with government regulations, profitability margins tend to remain on the lower side in the industry.

Vulnerability of agro-climatic risks and foreign exchange risks
The basmati rice processing industry is an agriculture-based industry, and the firm is exposed to agroclimatic risks such as raw material availability and its quality, which have a bearing on the prices of basmati rice. The cost and availability of basmati paddy is impacted by many factors such as inadequate irrigation facilities, unfavourable climate conditions, changes in crop patterns, and farmers' preferences for other crops that yield better realisation. Furthermore, the firm earns a significant portion of its revenue from the export market, and as a result, is exposed to foreign exchange fluctuation risk. However, the firm partially hedges its foreign currency exposure through forward contracts Nevertheless, for the uncovered portion, the firm's profitability margins are exposed to volatility in foreign exchange. Moreover, any change in government policies, either domestic or international, is likely to affect the firm's revenues. The earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non- tariffs barriers (restriction on the quality of imports), anti- dumping duties, international freight rates and port charges.

Key strengths
Experienced partners
The firm was established as a partnership firm in 1999 by three partners: Mr. Karundeep Singh, Mr. Sumit Mahant and Mr. Ramandeep Singh. Mr. Ramandeep Singh is a graduate and manages the day-to-day operations of the firm. Mr Karundeep Singh who has done MBA and manages the financial functions and exports division of the firm. Mr. Sumant Mahant is a graduate and manages the purchase division of the firm. All the partners have an experience of around two decades in rice milling industry through their association with this firm. The firm is having a considerable track record in this business which has resulted in long

term relationships with both suppliers and customers. Further, the partners of the firm are resourceful in nature and has provided operational and financial support to the firm by infusing the funds as and when required in the form of unsecured loans.

Moderate profitability margins
The profitability margins of the firm stood moderate for the past three financial years i.e. (FY21-FY23) as the firm export the aged basmati rice which fetch better margins. The PBILDT margin of the firm improved to 6.72% in FY23 as against 5.34% in FY22 owing decline in overheads. Further, PAT margin declines marginally to 0.51 % in FY23 as against 0.59% in FY22 on account of increase in financial charges. Going forward, the margins are expected to remain in line with the previous year levels.

Liquidity: Stretched
The liquidity position of the firm remains stretched as marked by 80-85% utilisation of working capital limits for the past 12 months ended February 2024. Further, the firm has tightly matched accruals vis-à-vis repayment obligations. The firm has generated net cash accrual (NCA) of Rs. 0.79 crore during FY23 and is expected to generate NCA of Rs. 1.20 Crore in FY24, against repayment obligation of approx. Rs. 1.17 crore in the same year.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria
Definition of Default
Policy in respect of non-cooperation by issuers
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

Mahant Overseas is a partnership firm incorporated in 1999 engaged in manufacturing of rice and is based in Amritsar, Punjab. The plant has an installed capacity of 12 MT/Hr. The firm is marketing its products i.e Basmati Rice in the name of 'Sadhu', 'Crystal Horse' and '111' brands in the domestic and overseas market. The firm has 6 partners Karundeep Singh, Sumit Mahant, Jasbir Kaur, Ramandeep Singh, Darshan Kaur and Parveen Kaur.The partners have around 2 decades of experience. The firm mainly exports in countries such as America, Saudi Arabia, Oman, Yemen, UAE and South Africa .The firm procures paddy mainly from Punjab and Haryana.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	10MFY24 (UA)
Total operating income	69.42	84.36	65.00
PBILDT	3.71	5.67	NA
PAT	0.41	0.43	NA
Overall gearing (times)	9.63	5.40	NA
Interest coverage (times)	1.11	1.22	NA

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork have placed the rating assigned to the bank facilities of Mahant Overseas into Issuer Not Cooperating category vide their press release dated March 19, 2024, respectively on account of their inability to carry out a review in the absence of requisite information.

Any other information: Not Applicable
Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	45.50	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	2028	7.43	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.07	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	45.50	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (11-Mar-24)	-	-
2	Fund-based - LT-Term Loan	LT	7.43	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (11-Mar-24)	-	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST	0.07	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable / CARE A4 (11-Mar-24)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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