P. D. R. D. Rice Mills Private Limited

March 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	70.00 (Enhanced from 40.00)	CARE BB; Stable / CARE A4	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of P.D.R.D Rice Mills Private Limited (PRMPL) is constrained by low profitability margin, low net worth base leading to leveraged capital structure, presence in highly competitive & fragmented industry, customer concentration risk, foreign exchange fluctuation risk, working capital intensive nature of operations, government regulations & agro-climatic risk. However, the rating derives comfort from experienced promoters with long track record of operations, continuous growth in scale of operations during FY18-22, low counter party risks due to exports backed by Document against Payment, strong presence in exports market and favorable industry outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent increase in scale of operations resulting in total operating income of more than Rs. 400 crores.
- Improvement in profitability marked by PBILDT margin of more than 2.5% on sustained basis
- Improvement in capital structure marked by overall gearing of less than 2x on a sustained basis

Negative factors

- Moderation in profitability margin marked by PBILDT margin of less than 1.00% on sustained basis.
- Adverse changes in import policies of key importing countries affecting the prices of non- basmati rice and profitability of the company.

Analytical approach: Standalone

Outlook: Stable

The company is expected to grow its scale of operations in near medium term with strong presence in exports market.

Key weaknesses

Low profitability margin

PBILDT margin stood low and remained in the range of 2.00%-2.50% because of trading nature of business in highly fragmented and competitive industry. PAT margins have shown improvement from 0.65% in FY18 to 1.28% due to increase scale of operation and higher sales realization due to increase in price of non-basmati rice in international markets.

Low net worth base leading to leveraged capital structure

As on March 31, 2022, the capital structure of the firm is leveraged with overall gearing of 4.45x (PY: 1.96x) on account of low net worth base and availment of higher working capital limits. The coverage indicators moderated marked by interest coverage and Total Debt to GCA of 9.51x and 17.48x as on March 31, 2022 respectively as against 9.42x and 8.56x as on March 31, 2021 respectively.

Presence in highly competitive & fragmented industry

PRMPL operates in a highly competitive fragmented rice industry due to the presence of several organized and unorganized players which puts pressure on margins. This is however mitigated to a certain extent due to long standing presence of promoters in processing/export of rice. The firm is exposed to risks related to changes in political or economic conditions of the export countries. Any slowdown in the economic conditions may impact the flow of orders.

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

Foreign exchange fluctuation risk
While the firm has export receivables and sources input domestically it is exposed to foreign exchange fluctuations. To mitigate this, the entity has availed forward contract facility from banks. The company fully hedges its export receivables through forward contracts. The company reported foreign exchange gain of ₹1.12crore in FY22 (PY: ₹1.20 crore).z

Working capital intensive nature of operations
Paddy is procured either from traders or from other millers and are majorly paid in cash to avail cash discount and hence increasing the overall working capital cycle. Under custom milling obligation, the firm is required to process certain quantity as specified by government from time to time. In custom milling, the payments are received 30-45 days thereby blocking funds for the company. The company requires working capital finance since export orders are met through mainly container shipping / bulk shipping wherein each shipment comprise 10,000-30,000 tonnes of rice. Due to Covid as there was a major hit in ocean freight market in terms of freight increase as well as transit time. Hence, freight rate has gone up substantially as compared to pre covid levels that led company to use more limits. Also Inventory period is generally higher in Q4 during harvesting season i.e, from November to April to fund purchase of paddy.

Government regulations & Agro-Climatic risk
The government's rice export policy and minimum support price for paddy affects the prices of rice and thereby revenues. Paddy which is the main raw material for rice is a seasonal crop and the production of the same is highly dependent upon monsoons. Thus, inadequate rainfall or adverse weather conditions may affect the availability of paddy.
Government of India has imposed 20% export duty on non-basmati rice exports on September 8, 2022. Although this has led to increase in price of exported non-basmati rice, however the same is still competitive compared to other major exporters like Thailand & Vietnam.

Key strengths
Experienced promoters with long track record of operations
P.D.R.D Rice Mills Private Limited was established in 2009 by Mr. Dip Chand Khaitan, Mr. Dhananjay Singhania and Mr. Raj Kumar Singhania. The promoters belong to agricultural family having an agricultural background with vast experience in rice field w.r.t. procurements, processing and supply destinations. The day-to-day operations of the firm are managed by Mr. Dhananjay Singhania and Mr. Sidharth Singhania (son of Mr. Dhananjay Singhania) - second generation entrepreneur, who is supported by a team of professionals who look into the various support functions of the firm. Dhananjay Singhania and Mr. Raj Kumar Singhania. The manufacturing unit of PRMPL is situated in an area of 1.5 acres out of total land available of 3.45 acres.c

Continuous growth in scale of operations during FY18-22
Growth in operations of PRMPL attributable to major increase in export sales of non-basmati rice backed by steady demand in global market. TOI grew by CAGR of ~36.80% over the period between FY18-FY22 from Rs. 66.25 cr in FY18 to Rs. 231.99 cr in FY22.
In 9MFY23, company reported total operating income of Rs. 140.72 crore with PBILDT of Rs.3.08 crore.

Strong presence in exports market
The company derived 74% of its sales from exports in FY22 as compared to 69% and 58% in FY21 and FY20 respectively. PRMPL exports mainly to traders in Europe, Singapore, West Africa, Hongkong, Dubai etc.

Customer concentration risk albeit low counter party risks
PRMPL derived more than 60% of its total net sales from its top 10 customers in FY22 resulting in high customer concentration risk. The end consumer is mainly West Africa since all the export to traders based out of Singapore and Europe is routed to Africa. Majority of the export orders are backed by Document against payment. Therefore, payment risk is minimal since transfer of ownership of goods happen after receipt of payment.

Favourable Industry Outlook
India's non-basmati rice exports witnessed growth of 109% from USD 2925 million in FY 2013-14 to USD 6115 million in FY 2021-22. As per DGCIS data, India exported rice to over 150 countries across the globe in 2021-22. India exported more than USD one million to 76 countries out of the 150 countries reported in 2021-22, It indicates the diversification of India's rice export over the years. According to the DGCIS data, India had exported non-basmati rice worth USD 2015 million in 2019-20, which rose to USD 4799 million in 2020-21 and USD 6115 million in 2021-22. Registering a growth of 27% in 2021-22, export of non-basmati rice was the top forex earner among all agri-commodities, at USD 6115 million.

Notwithstanding logistical challenges posed by COVID19 pandemic, India continues to expand its rice exports footprint in the African, Asian and European Union markets, thus having the largest. share in global rice trade. The robust global demand also helped India's growth in rice exports.
Notably, India is the world's second-largest rice producer after China. The record exports would enable the rice producers to reduce their stocks and would also benefit the farmers as the increased demand for Indian Rice is likely to improve their realizations.

Liquidity: **Adequate**
Liquidity of PRMPL is adequate as evident from average working capital utilization at ~70% during the past twelve months ending January 2023. Working capital cycle moderated from 27 days in FY21 to 60 days in FY22 due to both higher inventory and receivable days. Inventory period is generally higher in Q4 during harvesting season from November to April to fund purchase of paddy.
The firm has reported gross cash accruals of Rs. 3.49 cr against repayment obligations of Rs. 0.68 cr in FY22.

Assumptions/Covenants: NA

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

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

P.D.R.D Rice Mills Private Limited was established in 2009 by Mr. Dip Chand Khaitan, Mr. Dhananjay Singhania and Mr. Raj Kumar Singhania. The day-to-day operations of the firm are managed by Mr. Dhananjay Singhania and Mr. Sidharth Singhania (son of Mr. Dhananjay Singhania) - second generation entrepreneur, who is supported by a team of professionals who look into the various support functions of the firm. The firm is engaged in processing, milling and sorting of different types of non-basmati rice (like white rice, long grain parboiled rice and long grain white rice). The firm processes and sells parboiled & white rice under the brand 'Puspraj' in India and also exports such rice varieties. The company has 2 rice milling units (1 for processing and 1 for milling and sorting) with installed capacity of 80 MTPH (Metric ton per hour) for processing and 64 MTPH for milling and sorting. It also has 1 ata milling unit in the same plant with the installed capacity pf 1.5 MTPH. PRMPL exports parboiled / white rice to international trading firms based in Switzerland, Singapore, Senegal, Dubai, France etc. The end consumers are based primarily in West Africa.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	171.55	232.42	140.72
PBILDT	3.30	4.97	NA
PAT	2.16	3.00	NA
Overall gearing (times)	1.96	4.45	NA
Interest coverage (times)	9.42	9.51	NA

A: Audited UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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/ ST-Packing Credit in Foreign Currency		-	-	-	70.00	CARE BB; Stable / CARE A4

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/ ST-Packing Credit in Foreign Currency	LT/ST*	70.00	CARE BB; Stable / CARE A4	1)CARE BB; Stable (20-Dec-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Lender details

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

Note on the 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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About us:
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