

Bhagwati Rice Mill Private Limited

November 28, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	45.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total Facilities	45.00 (₹ Forty-Five Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Bhagwati Rice Mill Private Limited (BRM) is primarily constrained by its modest and fluctuating scale of operations, low profitability margins, leveraged capital structure and weak debt coverage indicators. Further, the rating is also constrained by risk associated with elongated operating cycle, susceptibility to fluctuation in raw material prices and vagaries of nature and its presence in a fragmented and competitive nature of the industry coupled with high level of government regulation.

The rating, however, draw comfort from experienced and resourceful directors coupled with long track record of operations and established brand name backed by favorable manufacturing location.

Rating Sensitivities

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

- Improvement in scale of operations as marked by total operating income of above Rs.320.00 crore on sustained basis.
- Improvement in profitability margins as marked by PBILDT above 3.00% on a sustained basis.
- Improvement in the operating cycle of the company for less than 90 days.

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

- Deterioration in the capital structure as marked by overall gearing ratio of above 6.20x.
- Decline in debt coverage indicators as marked by interest coverage ratio of below 1.00 times.
- Delay in timely infusion of funds by the promoters to support the liquidity position of the company.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest and fluctuating scale of operations: BRM's scale of operations stood modest as evident from total operating income (TOI) of Rs.245.22 crore and gross cash accruals of Rs.0.66 crore respectively, during FY22 (FY refers to the period April 1 to March 31) as against Rs.300.53 crore and Rs.0.75 crore respectively, during FY21. Moreover, BRM's scale of operations remained fluctuating for the period FY20-FY22 (refers to the period April 1 to March 31). TOI registered improvement in FY21 over FY20 and thereafter declined in FY22. The same was mainly on account of second wave of COVID-19 impact in the first half of FY22. The modest scale limits the company's financial flexibility in times of stress and deprives it of scale benefits. Further, the company has achieved total operating income of ~Rs.40.00 crore during 6MFY23 (refers to the period from April 1, 2022 to September 30, 2022; based on provisional results) and is expecting turnover of Rs.300.00 crore for FY23 as major revenue is derived in last quarter of every year.

Low profitability margins, leveraged capital structure and weak debt coverage indicators: The profitability of the company stood low for the last three financial years (FY20-FY22) on account of limited value addition along with its presence in the highly fragmented and competitive industry. However, PBILDT margin of the company improved to 2.24% in FY22 as against 1.89% in FY21 mainly on account of increase in sale of high-quality rice which normally fetches better margins. Further, PAT margin stood at 0.05% in FY22. The profitability margins is expected to remain at previous year levels as envisaged.

The capital structure of the company stood leveraged as on the past three balance sheet dates ending March 31, '20-'22 on account of higher reliance on external borrowings to fund the working capital requirements of business against the net worth base. Overall gearing ratio stood at 5.65x as on March 31, 2022 showing deterioration from 5.49x as on March 31, 2021 mainly on account of higher utilization of working capital borrowings as on balance sheet date. The capital structure is expected to remain leveraged over the medium term on account of higher reliance on external debt. Further, on account of high debt levels and low

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

profitability margins, the debt coverage indicators of the company as marked by interest coverage ratio and total debt to GCA stood weak at 1.15x and 98.51x respectively, in FY22 as against 1.15x and 83.35x respectively in FY21.

Elongated operating cycle: The operating cycle of the company stood elongated as marked by 106 days for FY22. Being in the rice milling business, the company 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 company 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 83 days for FY22. Further, being present in a highly competitive industry, the company normally extends credit period of around a month to its customers. On the other hand, the procurement of paddy is done mainly on cash basis as soon as it is purchased. Thus, the average utilization of the working capital limits remained around 60%-70% for the past 12 months period ending October, 2022. However, it remained almost 95% utilized during peak season (November to January).

Susceptibility to fluctuation in raw material prices and vagaries of nature: BRM generates its revenue from processing of rice, prices of which have exhibited fluctuating trend in past and is dependent on demand-supply scenario prevailing in the market with strong linkage to the global production yield along with vagaries of weather. Hence, profitability of the company is exposed to adverse movement in prices of agricultural commodities. Agro-based industry is characterized by its seasonality, due to its dependence on raw materials whose availability is affected directly by the vagaries of nature. The price of rice moves in tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions. The monsoon has a huge bearing on crop availability which determines the prevailing paddy prices. Since there is a time lag between raw material procurement and liquidation of inventory, BRM is exposed to the risk of adverse price movement resulting in lower realization than expected. Any sudden spurt in raw material prices may not be passed on to customers completely owing to company's presence in highly competitive industry may adversely affect the profitability of the company.

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.

Key Rating Strengths

Experienced and resourceful directors coupled with long track record of operations: BRM is a family run business. The directors of the company are Mr. Mohan Lal Goyal and Mrs. Kanta Devi Goyal. Mr. Mohan Lal Goyal has accumulated vast experience of more than two decades in rice milling business through his association with this entity and looks after the overall operations of the company. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Further, the directors of the company are resourceful in nature and has provided operational and financial support to the company by infusing the funds as and when required in the form of unsecured loans. Currently, the company has debt to the tune of Rs.14.27 crore as on March 31, 2022 which is in the form of unsecured loans only from promoters, friends and associate concern and are non-interest bearing.

Established brand name backed by favorable manufacturing location: The company sell its products under its four different regional brands: Shree, Hathi, Gulab and Ujjwal which further adds credibility to the products of the company and create an established image of the company in the market. BRM is mainly engaged in milling and processing of rice. The main raw material (paddy) is procured from local grain markets, mainly located in Uttar Pradesh. The company's processing facility is situated in Mainpuri, Uttar Pradesh; which is a second largest producer of paddy growing state in India which makes it easier for the company to access its primary raw materials at effective prices as well as results in benefits derived from lower logistic expenditures (both on transportation and storage). BRM has developed good business relations with the suppliers which thereby results in easy procurement of raw materials.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs.0.66 crore during FY22 and is expected to generate envisage GCA of Rs.1.00 crore for FY23 against repayment obligations of Rs.3.00 crore in same year. Further the promoters will infuse funds in the form of unsecured loans as and when required to support the liquidity. Furthermore, the average utilization of its working capital limits remained almost 60%-70% utilized for the past 12 month's period ending October, 2022. However, it remained almost 95% utilized during peak season. The company has low free cash & bank balances which stood at Rs.0.15 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

About the Company

Uttar Pradesh based Bhagwati Rice Mill Private Limited (BRM) was incorporated in November, 1995 as a private limited company. The company is currently directed by Mr. Mohan Lal Goyal and Mrs. Kanta Devi Goyal. The company is engaged in the milling and processing of paddy with an installed capacity to process 12 tonnes per hour (TPH) as on March 31, 2022 at its manufacturing facility located in Mainpuri, Uttar Pradesh.

The company is having two associate concern namely; "Rama Enterprises" (established in 1990) engaged in the trading of food grains and "Goyal Brothers" (established in 1990) engaged in the trading of food grains.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23*
Total operating income	300.53	245.22	40.00
PBILDT	5.67	5.49	NA
PAT	0.16	0.13	NA
Overall gearing (times)	5.49	5.65	NA
Interest coverage (times)	1.15	1.15	NA

A: Audited; NA: Not Available

*refers to the period from April 1, 2022 to September 30, 2022.

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 for this firm: 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

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				

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

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 instrument: CARE Ratings Ltd. 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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