

Annapurna Dal Mill
September 25, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	5.28	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total	5.28 (Rupees Five crore and Twenty Eight lakh only)		

Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Annapurna Dal Mill (ADM) is constrained by modest scale of operations with low profit margins, volatility in prices of raw materials with exposure to vagaries of nature, regulation by the government in terms of minimum support price, partnership nature of constitution and fragmented and competitive nature of the industry. The rating, however, derives strength from the long track record of operations, experienced partners, proximity to raw material sources, favourable demand outlook of its products and comfortable capital structure with satisfactory debt coverage indicators.

Going forward, the firm's ability to increase its scale of operations with improvement in profitability and manage working capital effectively shall be the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weaknesses**

Modest scale of operations with low profit margins: The scale of operations of ADM remained modest marked by total operating income of Rs. 57.76 crore (Rs.51.33 crore in FY15) with a PAT of Rs.0.59 crore (Rs.0.26 crore in FY15) in FY16. In FY17, the firm has achieved turnover of Rs.60.00 crore as maintained by the management. Furthermore, the profit margins of the firm also remained low marked by PBILDT margin of 1.88% (1.72% in FY15) and PAT margin of 1.02% (0.51% in FY15) in FY16.

Volatility in the prices of raw materials with exposure to vagaries of nature: The cultivation of pulses happens seasonally and the same is stored for the consumption throughout the year. The prices of pulses remain lower in the harvesting season whereas in off season the price of the pulses goes up as per the demand and supply in the market. As the firm procures its raw materials i.e. raw pulses throughout the year as per its requirement and therefore the firm is exposed to volatility in prices of raw material. Also, agro products cultivation is highly dependent on monsoons, thus exposing the fate of the firm's operation to vagaries of nature.

Regulation by Government in terms of minimum support price (MSP): The Government of India (GOI), every year decides a minimum support price (MSP – to be paid to pulses growers) for pulses which limits the bargaining power of pulses (Dal) millers over the farmers. The MSP of Tur has increased during the crop year 2017-18 to Rs.5450/quintal (as suggested by the Commission for Agricultural Costs and Prices, the apex body to advice on MSP to the government) from Rs.5050/quintal in crop year 2016-17. Furthermore, The MSP of Moong Dal has increased during the crop year 2017-18 to Rs.5575/quintal from Rs.5225/quintal in crop year 2016-17. Given the market determined prices for finished product vis-à-vis fixed acquisition cost for raw material, the

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

profitability margins are highly vulnerable. Such a situation does not augur well for the firm, especially in times of high pulses cultivation.

Partnership nature of constitution: ADM, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Furthermore, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Fragmented and competitive nature of industry: Processing of pulses business is highly fragmented due to presence of small players owing to low entry barrier and low technology and capital requirement. Furthermore, low product differentiation also resulted in high competition in the industry. Considering the fragmented and competitive nature of industry, the millers have low pricing power.

Key Rating Strengths

Experienced partners and long track record of operations: The firm is into milling and processing of pulses since 2004 and thus has more than a decade of track record of operations. Furthermore, the main partner Mr Shiv Kumar Agrawal is associated with the firm since its inception and accordingly has more than a decade of experience in this line of business. He looks after the overall management of the firm. Mr Agarwal is supported by other partners who are also having experience in this line of business.

Proximity to raw material sources and favourable demand outlook of its products: ADM's unit has close proximity to local pulses markets and major raw material procurement destinations. Further, Bihar and nearby states are one of the major pulse producing area in India. Accordingly, ADM has locational advantage in terms of proximity to raw material. This apart, the plant is located in the vicinity of industrial area of Bihar, having good transportation facilities and other requirements like good supply of power, water etc. The demand for pulses is high than the actual production happens in India and thus shortfall is met by imports from other countries. Therefore the demand outlook for pulses is estimated to remain positive in the domestic market going forward.

Comfortable capital structure with satisfactory debt coverage indicators: The capital structure of the firm remained comfortable marked by overall gearing ratio of 0.55x (1.74x as on March 31, 2015) as on March 31, 2016. The debt coverage indicators also remained satisfactory marked by interest coverage of 3.31x and total debt to GCA at 2.33x in FY16.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Policy on Default Recognition](#)

About the Firm

ADM was set up as a proprietorship entity in 2004 by Mr Shiv Kumar Agrawal for setting up a manufacturing unit for processing of pulses. However, ADM was constituted as a partnership firm via partnership deed dated January 09, 2015 by Mr Shiv Kumar Agrawal and his family members. Since its inception, the firm has been engaged in milling and processing of pulses like massor and moong dal. The plant of the firm is located at Gaya, Bihar with an installed capacity of 20 metric ton per day.

Brief Financials (Rs. crore)	FY15 (A)	FY16 (A)
Total operating income	51.33	57.76
PBILD	0.88	1.08
PAT	0.26	0.59
Overall gearing (times)	1.74	0.55
Interest coverage (times)	3.56	3.31

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Nov. 2021	0.48	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	4.80	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.48	CARE BB; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	4.80	CARE BB; Stable	-	-	-	-

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