

Cheeka Rice Mill

July 09, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term bank facilities	8.00	CARE B; ISSUER NOT COOPERATING* (Single B ISSUER NOT COOPERATING*)	Revised from CARE B+; Issuer not cooperating (Single B plus; Issuer not cooperating)
Total	8.00 (Rs. Eight Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Cheeka Rice Mill, to monitor the rating(s) vide e-mail communications/ letters dated May 15, 2018, May 29, 2018 and June 4, 2018, with numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating.** In line with the extant SEBI guidelines CARE's rating on Cheeka Rice Mill's bank facilities **CARE B; ISSUER NOT COOPERATING***.

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

The rating takes into account small scale of operations, low profitability margins, leveraged capital structure, weak coverage indicators, working capital intensive nature of operations, volatility in raw material prices, intense competition in the industry due to low entry barriers. However the risk is mitigated by experienced partners in manufacturing industry.

Detailed description of the key rating drivers

At the time of last rating on March 6, 2017, the following were the rating strengths and weaknesses

Credit Risk Assessment

Key Rating Weaknesses

Small scale of operations with low profitability margins

The scale of operations continues to remain small reflected by total operating income (TOI) of Rs.29.65 crore in FY15 (refers to the period April 1 to March 31) as against Rs.23.71 in FY14.

The PBILDT margin of the firm has declined in FY15 and stood at 2.87% as against 3.24% in FY14. However, the PAT margin has improved in FY15 and stood at 0.10% as against 0.04% in owing to comparatively lower interest and depreciation cost during FY15.

Weak financial risk profile

The financial risk profile of CRM is characterized by low profitability margins, leveraged capital structure and weak coverage indicators.

The firm's profitability margins have been on the lower side owing to the low value addition and intense market competition given the highly fragmented nature of the industry. This apart, interest burden on working capital borrowing also restricts the net profitability of the firm. The PBILDT and PAT margins stood at around 4.70% and 0.03% respectively in the last three financial years (FY11 - FY13).

As on March 31, 2013, the firm has a leveraged capital structure marked by overall gearing ratio of 2.38x as on March 31, 2013, which deteriorated from 1.54x as on March 31, 2012, mainly on account of higher utilization of working capital bank borrowings as on balance sheet date.

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

*Issuer did not cooperate

The firm's coverage indicators stood weak marked by low interest coverage and high total debt to GCA of 1.18x and above 44x, respectively, for FY13 due to low profitability margin and high debt level.

Leveraged capital structure and weak debt service coverage indicators

Capital structure of the firm has improved in FY15; however, stood leveraged marked by overall gearing of 1.67x as on March 31, 2015, as against 2.19x as on March 31, 2014. The improvement was on account of increase in net worth owing to infusion of funds by the partners in form of capital.

Debt coverage indicators have remained weak marked by interest coverage and total debt to GCA of 1.14x and 59.23x for FY15 against 1.15x and 62.22x for FY14.

Partnership nature of constitution

CRM being a partnership firm and is exposed to the risk of withdrawal of capital by partners due to personal exigencies, dissolution of firm due to retirement or death or insolvency of any partner and restricted financial flexibility due to inability to explore cheaper sources of finance leading to limited growth potential.

Highly fragmented industry characterised by high competition

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 several 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. Agro-based industry is characterized by its seasonality, as it is dependent on the availability of raw materials, which further varies with different harvesting periods. The price of rice moves in tandem with the prices of paddy.

Key Rating Strengths

Experienced partners and long track record of operations

CRM is a partnership firm with a track record of over four decades in processing of paddy into rice. Mr Sat Pal and Ms Darshana Devi have a total experience of around than two decades in the business of processing and trading of paddy. Prior to this, Mr Sat Pal was involved in Vishnu Trading Co (trading of paddy).

Favorable manufacturing location

CRM is mainly engaged in the milling and processing of rice. The main raw material (paddy) and wheat is procured from local grain markets, located in Haryana. The firm's processing facility is situated in Cheeka, Haryana, which is one of the highest producers of paddy in India. Its presence in the region gives additional advantage over the competitors in terms of easy availability of the raw material as well as favorable pricing terms. CRM owing to its location is in a position to cut on the freight component of incoming raw materials.

Fragmented nature of the industry

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 several 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.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

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

About the Company

CRM was established in 1972 as a partnership firm. The current management comprises its present partners, viz, Mr Sat Pal and Ms Darshana Devi with equal profit and loss sharing. The firm is engaged in the trading and processing of rice. The manufacturing unit is located at Cheeka, Haryana, with an installed capacity of processing of rice of 36,500 metric tonnes per annum (MTPA) as on March 31, 2015. CRM procures paddy from local grain markets located in Haryana and Punjab through commission agents in bulk. The firm sells its products in Haryana and Punjab through a network of commission

agents.

For FY15 (refers to the period April 01 to March 31), CRM achieved a total operating income (TOI) of Rs.29.65 crore with PBILDT and PAT of Rs.0.85 crore and Rs.0.03 crore, respectively, as against TOI of Rs.23.71 crore with PBILDT and PAT of Rs.0.77 crore and Rs.0.01 crore, respectively, for FY14. The firm has achieved total sales of Rs.5.13 crore for 5MFY16 (refers to the period April 01 to August 31).

Brief Financials (Rs. crore)	FY15 (A)
Total operating income	29.65
PBILDT	0.84
PAT	0.02
Overall gearing (times)	1.67
Interest coverage (times)	1.14

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for 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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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-Cash Credit	-	-	-	8.00	CARE B; ISSUER NOT COOPERATING* Issuer not cooperating

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (20-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	8.00	CARE B; ISSUER NOT COOPERATING* Issuer not cooperating	-	-	1)CARE B+; ISSUER NOT COOPERATING* (21-Mar-17)	1)CARE B+ (20-Oct-15)

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