

Cheeka Rice Mill

July 22, 2019

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|---------------------------|---|---|---|
| Long-term Bank Facilities | 8.00 | CARE B; ISSUER NOT COOPERATING* (Single B ; ISSUER NOT COOPERATING*) | Issuer Not Cooperating on the basis of best available information |
| Total | 8.00 (Rupees Eight crore only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated July 09, 2018 placed the rating of Cheeka Rice Mill (CRM) under the 'issuer non-cooperating' category as CRM had failed to provide information for monitoring of the rating. CRM continues to be non-cooperative despite repeated requests for submission of information through numerous phone calls and e-mail dated July 12, 2019 and numerous phone calls. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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

The rating has been taken into account non-availability of requisite information and no due-diligence conducted with banker due to non-cooperation by Cheeka Rice Mill with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on July 09, 2018 the following were the rating weakness and strengths (Updated for the information available from the Registrar of companies):

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. 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 on account of higher utilization of working capital bank borrowings as on balance sheet date. 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.

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

*Issuer did not cooperate; based on best available information

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 characterized 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 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

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Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

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

About the Company

Cheeka Rice Mills (CRM) was established in 1972 as a partnership firm. The present partners include Mr. Sat Pal and Ms. Darshana Devi with equal profit sharing of 50% each. The firm is engaged in trading and processing of rice. The firm is also engaged in processing of rice for other rice millers on job work basis. The manufacturing unit is located at Cheeka, Haryana. CRM procures paddy from local grain markets through commission agents in bulk mainly from the states of Haryana and Punjab. CRM has an open storage facility of around 5 acres and storage capacity of around 10,000 tons approximately. The firm sells its products in the states of Haryana and Punjab through a network of commission agents.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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; on the basis of best available information |

*Issuer not cooperating; Based on best available information

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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 8.00 | CARE B; ISSUER NOT COOPERATING* Issuer not cooperating; on the basis of best available information | - | 1)CARE B; ISSUER NOT COOPERATING* (09-Jul-18) | - | 1)CARE B+; ISSUER NOT COOPERATING* (21-Mar-17) |

*Issuer not cooperating; Based on best available information

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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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.

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