Cheeka Rice Mills

March 21, 2017

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	8	**CARE B+; ISSUER NOT COOPERATING (Single B Plus; ISSUER NOT COOPERATING)**	Issuer Not Cooperating
Total	**8 (Rupees Eight crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Cheeka Rice Mills to monitor the rating(s) vide e-mail communications/ letters dated February 22, 2017 and 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 Mills and Company's bank facilities will now be denoted as **CARE B+; ISSUER NOT COOPERATING**. ***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

Detailed description of the key rating drivers

At the time of last rating in October 06, 2015, the following were the rating strengths and weaknesses

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 deprecation 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. 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

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

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).

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.

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
Long term Bank Facilities (Fund-based Limits-CC)	-	-	-	8.00	CARE B+; ISSUER NOT COOPERATING
Non-fund-based - ST-BG/LC	-	-	-	-	-

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Bank Overdraft	LT	5.00	CARE B+; ISSUER NOT COOPERATING	-	1)CARE BB+ (06-Oct-15)	-	-

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