

## Padma Laxmi Sree Rice Mill Pvt. Ltd

March 06, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	12.35 (reduced from 14.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Rating suspension revoked and reaffirmed
Short-term Bank Facilities	0.30 (reduced from 0.50)	CARE A4 (A Four)	Rating suspension revoked and reaffirmed
<b>Total Bank Facilities</b>	<b>12.65</b> <b>(Rupees Twelve Crore Sixty Five Lakh Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Padma Laxmi Sree Rice Mill Pvt. Ltd (PLSRM) continues to remain constrained by its project stabilization risk, high government regulations, seasonal nature of availability of paddy resulting in high working capital intensity and exposure to vagaries of nature and fragmented and competitive nature of industry. The ratings, however, derive strength from its experienced promoters and proximity to raw material sources.

Going forward, ability of the company to stabilize its recently completed project, improve its scale of operation along with profit levels and margins and efficient management of working capital will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Project stabilization risk:** The project has been completed during December 2016 and commercial operation started from Feb 2017. The bank facilities have been sanctioned during January 2017. However, as the operation has started in recent past, the project stabilization risks lies with the company. However, provisionally, the company has been doing a trading business of rice during the last two financial years ending on FY16.

**High government regulations:** The Government of India (GOI), every year decides a minimum support price (MSP - to be paid to paddy growers) for paddy which limits the bargaining power of rice millers over the farmers. The sale of rice in the open market is also regulated by the GoI through the levy of quota, depending on the target laid by the central government for the central pool. Given the market determined prices for finished product vis-à-vis fixed acquisition cost for raw material, the profitability margins are highly vulnerable.

#### **Seasonal nature of availability of paddy resulting in high working capital intensity and exposure to vagaries of nature:**

Rice milling is a working capital intensive business as the rice millers have to stock rice by the end of each season till the next season as the price and quality of paddy is better during the harvesting season. Furthermore, the millers are required to extend a credit period of around 2-3 weeks to its customers. Also, paddy cultivation is highly dependent on monsoons, thus exposing the fate of the company's operation to vagaries of nature.

**Fragmented and competitive nature of industry:** PLSRM's plant is located in Vaishali district, Bihar which is one of the hubs for paddy/rice cultivating region. Owing to the advantage of close proximity to raw material sources, large number of small units is engaged in milling and processing of rice in the region. This has resulted in intense competition which is

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

also fuelled by low entry barriers. Given that the processing activity does not involve much of technical expertise or high investment, the entry barriers are low.

#### **Key Rating Strengths**

**Experienced promoters:** The promoters of PLSM have long experience in agro industry, chemical industry and engineering line of business. Mr Chittaranjan Ghosh (aged 63 years, M.Com) having an experience of more than four decades in the agro-commodity and chemical business, will look after the overall affairs of the company. He will be adequately supported by his son, Mr Sanjoy Ghosh (aged 34 years, Engineer & MBA), having experience of around a decade in agro commodity, chemical and engineering line of business, will look after the marketing activities. Prior to setting up of this company, both of them were engaged in same activity through its associate concern namely Laxmisree Ricemill Pvt. Ltd.

**Proximity to raw material sources:** PLSRM's plant is located in Vaishali District, Bihar which is in the midst of paddy growing region. The entire raw material requirement is met locally from the farmers (or local agents) which helps the company to save substantial amount of transportation cost and also procure raw materials at effective price.

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

[Criteria for Short Term Instruments](#)

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

#### **About the Company**

Padma Laxmi Sree Rice Mill Pvt. Ltd. (PLSM) was incorporated in June, 2010 by Ghosh family of Birbhum District, West Bengal. The company has been engaged to setup a rice milling unit at Vaishali district of Bihar with a processing capacity of 48,000 metric tonne per annum (MTPA), which is in the vicinity to a major rice growing area. The project has been completed in December 2016 and the commercial operation has started from February 2017. However, provisionally, the company has been doing a trading business of rice during the last two financial years ending on FY16.

During FY16, the company reported a total operating income of Rs.0.93 crore (FY15: Rs.1.89 crore) and a PAT of Rs.0.01 crore (in FY15: Rs.0.02 crore). Furthermore, the company has achieved a total operating income of Rs.0.91 crore during 9MFY17 (refers to the period April 1 to December 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

#### **Analyst Contact:**

Name: Mr Avinava Adhikary

Tel: (033) 40181660 /40181600

Mobile: +91 98362 30249

Email: [avinava.adhikary@careratings.com](mailto:avinava.adhikary@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

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**Annexure-1: Details of 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	-	-	October 2025	6.00	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	6.35	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.30	CARE A4

**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-Term Loan	LT	6.00	CARE B+; Stable	-	1)Suspended (29-Feb-16) 2)CARE B+ (16-Apr-15)	-	-
2.	Fund-based - LT-Cash Credit	LT	6.35	CARE B+; Stable	-	1)Suspended (29-Feb-16) 2)CARE B+ (16-Apr-15)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.30	CARE A4	-	1)Suspended (29-Feb-16) 2)CARE A4 (16-Apr-15)	-	-

**CONTACT****Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: [amod.khanorkar@careratings.com](mailto:amod.khanorkar@careratings.com)**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: [mehul.pandya@careratings.com](mailto:mehul.pandya@careratings.com)**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: [sajan.goyal@careratings.com](mailto:sajan.goyal@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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