

Satnam Rice Mills
February 01, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	15.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Facilities	15.00 (Rupees Fifteen crore only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Satnam Rice Mills (SRM) continues to be constrained by its modest scale of operations along with low profitability margins, leveraged capital structure and weak debt coverage indicators. The rating is further constrained by weak liquidity position, proprietorship nature of constitution and fragmented and competitive nature of industry. The rating, however, derives strength from experienced proprietor in the agro processing industry and proximity of its processing unit to the paddy growing areas.

Going forward, ability of the firm to profitably scale up its operations while improving its overall solvency position along with efficient working capital management shall remain the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths*****Experienced proprietor in the agro processing industry***

Satnam Rice Mill (SRM) was established as a proprietorship firm in the year 2002 by Mr Sachin Mittal. He is a graduate and has an experience of around one and half decade in processing and milling of basmati and non-basmati rice through his association with SRM. He looks after overall operations of the firm.

Close proximity to paddy growing region

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. SRM owing to its location is in a position to cut on the freight component of incoming raw materials.

Key Rating Weaknesses***Modest scale of operations with low profitability margins***

The total operating income of SRM stood stable at Rs.66.27 crore in FY18 as against Rs.65.97 crore in FY17 due to absence of incremental demand from customers. The same, however, continues to remain modest. The modest scale of operations limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Furthermore, the firm reported total operating income of Rs.65.00 crore in 9MFY19 (Provisional).

The PBILDT margin improved marginally from 3.44% in FY17 to 3.47% in FY18 due to improved sales realization. Consequently, and also due to decrease in interest expenses in FY18, PAT margin improved marginally from 0.25% in FY17 to 0.28% in FY18. Furthermore, the gross cash accruals increased from Rs.0.34 crore in FY17 Rs.0.42 crore in FY18.

Leveraged capital structure

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

The capital structure of the firm stood leveraged marked by the overall gearing ratio of 4.34x as on March 31, 2018. The same deteriorated from 4.31x as on March 31, 2017 due to additional term loans availed and infusion of funds in the form of unsecured loans in FY18.

Weak debt coverage indicators

The debt coverage indicators remained weak with the total debt to GCA at 51.17x for FY18 and interest coverage ratio at 1.21x in FY18 in comparison to total debt to GCA at 57.91x for FY17 and interest coverage ratio at 1.18x in FY17. The interest coverage ratio improved from 1.18x in FY17 due to increase in absolute PBILDT level. Consequently, the total debt to GCA improved from 57.91x for FY17 owing to increase in gross cash accruals in FY18.

Weak liquidity position

The operating cycle of the firm stood elongated at 131 days for FY18 (PY: 129 days). SRM is required to maintain adequate quantity of raw materials and finished products to ensure smooth production and to meet demand of customers. Furthermore, basmati rice requires longer ageing of the semi-finished rice for better quality, which further elongates the inventory holding period of the firm which has led to a high inventory period of 105 days for FY18. The same decreased from 111 days for FY17 mainly due to decline in unsold finished goods. The firm generally extends credit period of around one month to its customers. However, delay in realization of funds from a few customers resulted into average collection period of 64 days for FY18 (PY: 37 days). Consequently, the creditor period also elongated from 19 days for FY17 to 38 days for FY18. The working capital limits remained fully utilized for the last 12 months period ended December 2018. The current ratio stood moderate at 1.40x as on March 31, 2018 however, quick ratio stood weak at 0.41x as on March 31, 2018. The firm has free cash and bank balance of Rs.0.30 crore as on March 31, 2018.

Fragmented and competitive nature of 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. Furthermore, the concentration of rice millers around the paddy growing regions makes the business intensely competitive.

Constitution of the entity being a proprietorship firm

SRM's constitution as a proprietorship firm has the inherent risk of withdrawal of the proprietor's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of proprietor. Moreover, proprietorship firms have restricted access to external borrowing as the credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Analytical Approach: Standalone

Applicable Criteria

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

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

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

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

About the Firm

Kaithal-based (Haryana) SRM was established in 2002 as a proprietorship firm by Mr Sachin Mittal. The firm is engaged in milling, processing and trading of basmati and non-basmati rice with an installed capacity of 54000 metric ton per annum as on December 31, 2018. The firm procures paddy from local grain markets through commission agents and rice millers. The firm sells its product under the brand name 'Kaithal King' in Northern India mainly in Haryana and Delhi.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	65.97	66.27

PBILDT	2.27	2.30
PAT	0.17	0.19
Overall gearing (times)	4.31	4.34
Interest coverage (times)	1.18	1.21

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.

Analyst Contact

Name: Mr Achin Nirwani

Tel: 01145-333228

Email: achin.nirwani@careratings.com

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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	-	-	-	15.00	CARE B+; 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 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-Cash Credit	LT	15.00	CARE B+; Stable	-	1)CARE B+; Stable (26-Feb-18) 2)CARE B+; Stable (10-May-17)	1)CARE B+ (09-Sep-16)	1)Suspended (25-Mar-16) 2)CARE B+ (06-Apr-15)

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

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**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

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

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@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**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**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**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**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**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**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

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