

## Satnam Rice Mills

February 26, 2018

### Ratings

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

*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 modest scale of operations, low profitability margins, leveraged capital structure and weak coverage indicators. The rating is further constrained by working capital intensive nature of operations, proprietorship nature of constitution and its presence in a highly competitive and fragmented agro processing business. The rating, however, continues to derive strength from the 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 scale up its operations while improving its profitability margins and capital structure along with efficient working capital management shall be 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.

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

## Key Rating Weaknesses

### ***Modest scale of operations and low profitability margins***

The total operating income of SRM decreased from Rs.77.70 crore in FY16 (refers to the period from April 01 to March 31) to Rs.65.97 crore in FY17 due to lower quantity sold owing to lesser orders received from customers. The modest scale of operations limits the firm's financial flexibility in times of stress and deprives it of scale benefits.

However, the PBILDT margins improved by 72 bps and stood at 3.44% in FY17 due to improved sales realization. However, the same continues to be on the lower side owing to firm's presence in the highly competitive and fragmented industry. The PAT margin declined from 0.40% in FY16 to 0.25% in FY17 due to increase in interest and depreciation costs. The gross cash accruals stood stable at Rs.0.34 crore in FY16 and FY17.

### ***Working capital intensive nature of operations***

The operating cycle of the firm stood elongated at 129 days for FY17 (PY: 102 days). SRM is required to maintain adequate quantity of raw materials and finished products to ensure smooth production and to meet demand of customers which has led to a high inventory period of 111 days for FY17 (PY: 97 days). The firm generally extends credit period of around one month to its customers, however, delay in realization resulted into average collection period of 37 days for FY17 (PY: 24 days). The firm receives similar credit period of one month from suppliers resulting into average creditor period of 19 days for FY17. The working capital limits remained fully utilized for the last 12 months period ended January 2018.

### ***Weak debt coverage indicators***

The debt coverage indicators marked by interest coverage ratio and total debt to GCA stood at 1.18x in FY17 and 58.74x for FY17 respectively as compared to interest coverage ratio of 1.19x in FY16 and total debt to GCA of 56.47x for FY16. The interest coverage ratio remained weak due to low PBILDT and high interest cost owing to high utilization of working capital limits during the year. Low PBILDT resulted into low gross cash accruals which coupled with high debt levels resulted into weak total debt to GCA ratio for FY17.

### ***Leveraged capital structure***

As on March 31, 2017, the total debt of the firm comprised of vehicle loans of Rs.0.06 crore, unsecured loans of Rs.2.98 crore and working capital borrowings of Rs.16.93 crore as against net worth base of Rs.4.63 crore. The capital structure of the firm is leveraged as reflected by overall gearing ratio of 4.31x as on March 31, 2017. The same deteriorated marginally from 4.27x as on March 31, 2016 mainly due to infusion of additional unsecured loans in FY17.

### ***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 company**

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 January 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.

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total operating income	77.70	65.97
PBILDT	2.12	2.27
PAT	0.31	0.17
Overall gearing (times)	4.27	4.31
Interest coverage (times)	1.19	1.18

*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](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 Achin Nirwani

Tel: 01145-333228

Email: [achin.nirwani@careratings.com](mailto: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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE B+; Stable	1)CARE B+; Stable (10-May-17)	1)CARE B+ (09-Sep-16)	1)Suspended (25-Mar-16) 2)CARE B+ (06-Apr-15)	1)CARE B+ (09-Apr-14)

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto: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](mailto: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](mailto:deepak.prajapati@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)

**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](mailto:pradeep.kumar@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)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 851111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@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)

**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)

**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)

**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)

CIN - L67190MH1993PLC071691

**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)