

Satnam Rice Mills

May 10, 2017

Rating			
Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	15	CARE B+; Stable (Single B Plus; Outlook Stable)	Reaffirmed
Total Facilities	15 (Rupees Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The rating of Satnam Rice Mills (SRM) continues to be remain 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 also took cognizance of decline in total operating income on y-o-y basis in the last 3 financial years (FY14-FY16).

The rating, however, continue to draw comfort from the experienced proprietor in the agro processing industry and proximity of its processing unit to the paddy growing areas.

Going forward; ability of SRM to scale 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 weakness

Declining though modest scale of operations: The scale of operations has been declining for the past three years (i.e. FY14-FY16) and stood at Rs.77.70 crore during FY16 (refers to the period April 1 to March 31) as against Rs.89.16 in FY14. The scale of operations continues to remain modest which limits the firm's financial flexibility in times of stress and deprives it from scale benefits. Mention reason for decline.

Low profitability, leveraged capital structure and weak coverage indicators: The firm profitability margins remained thin due to highly fragmented nature of industry characterized by intense competition. Furthermore, high financial charges restricted the net profitability of the firm.

The capital structure of the firm remained leveraged at 4.27x on account of low net worth base coupled with high dependence on external working capital borrowings for managing working capital requirements of the business. The debt service coverage indicators of the firm continue to remain weak in FY16 on account of high reliance on external borrowings coupled with low profitability.

Working capital intensive nature of operations: The operations of the firm continue to remain working capital intensive marked by an average operating cycle of 102 days for primarily due to large inventory holding requirements of around three months for FY16 as the peak paddy procurement season is during November to January during which the firm builds up raw material inventory to cater to the milling and processing of rice throughout the year. The high working capital requirements were met largely through bank borrowings which resulted in a high average utilization of almost full of its sanctioned working capital limits for 12 months ended February 2017.

Business susceptible to the vagaries of nature: Paddy is the major raw material and the peak paddy procurement season is during November to January during which the firm builds up raw material inventory to cater to the milling and processing of rice throughout the year. The monsoon has a huge bearing on crop availability which determines the prevailing paddy prices.

Fragmented and competitive nature of industry: The industry is 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.

Key rating Strength

Experienced proprietor: 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 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.

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

Analytical approach: Standalone

Applicable Criteria:

[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 150 metric ton per day (MTPD) as on January 31, 2017. 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.

In FY16 (refers to the period April 1 to March 31), SRM achieved a total operating income (TOI) of Rs.77.70 crore with PAT of Rs.0.31 crore as against Rs.85.53 crore and Rs.0.21 crore in FY15. Furthermore, in 11MFY16 (refers to the period April 1 to February 28) (as per the provisional results) the firm achieved total operating income of Rs.61 crore.

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.

Analyst Contact:

Name: Achin Nirwani

Tel: 011-45333228

Email: achin.nirwani@careratings.com

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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	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	CARE B+; Stable	-	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****Mr. Mehul Pandya**

Cell: +91-98242 56265

E-mail: mehul.pandya@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: 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**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. 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**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**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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