



Press Release

M.C Traders

May 07, 2021

Rating:

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	10.05	IVR BB; Stable Outlook (IVR Double B with Stable Outlook)	Assigned
Total	10.05		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of M.C Traders draws comfort from its experienced of the promoters in the dairy industry and efficient working capital utilisation. However, these rating strengths are partially offset by modest scale of operations, leveraged capital structure with moderate debt protection metrics and proprietorship nature of operations. The rating also considers the profitability remain vulnerable to agro-climatic conditions and Government regulation

Upward factors

- Sustained revenue growth and improvement in operating margin leading to higher cash accrual

Downward factors

- Decrease in scale of operations leading to decline in revenues and profitability ,weakening debt protection metrics.
- Withdrawal of unsecured loan from proprietor & related parties



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive industry experience of the promoter

Extensive experience of promoter in the dairy products industry for milk procurement and processing to scale up operations continuously has enabled the promoter to understand market dynamics. The company is benefited by experienced management, who has helped the company to maintain healthy and long-standing relationship with the customers.

Working capital efficient operations

Operations of the firm are working capital intensive, marked by its comfortable operating cycle of 65 days in FY20 with efficient collection period of days and inventory holding period of 54 days, primarily due to high finished goods holding period of three to four months to cater demand for milk products . The average working capital utilisation stood at 73% indicating for 12 months ending March 2021 indicating liquidity buffer.

Key Rating Weaknesses

Modest scale of operations

MC Traders is relatively a small player in dairy industry with total operating income of Rs 45.37 crore and PAT of Rs 0.40 crore, respectively in FY20. Furthermore, the total capital employed was also modest at Rs. 19.61 crore as on March 31, 2020. The small scale restricts the financial flexibility of the firm in times of stress. EBITDA margin and PAT margin were 4.74% and 0.88% respectively in FY20 (4.60% and 0.40% in FY19). The firm has achieved a sales of Rs 56.13 crore with EBITDA of Rs 4.12 crore in FY21(Prov).

Leveraged capital structure with moderate debt protection metrics

The firm network was moderate at Rs 10.65 crore with leveraged capital structure marked by overall gearing and TOL/TNW at 0.84 times and 0.99x as on March 31, 2020. Unsecured loan from proprietor and his family friend of Rs 7.78 crore is considered as quasi equity as it is subordinated. However, ISCR remained satisfactory at 2.40 times in FY20. The total debt/EBITDA deteriorated and stood at 4.17 year in FY20(2.03 year in FY19).



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Proprietorship nature of constitution

MC Traders, being a proprietorship entity, is exposed to inherent risk of proprietor's capital being withdrawn at the time of personal contingency and entity being dissolved upon the retirement/insolvency of the proprietor. Furthermore, proprietorship entities have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Profitability remain vulnerable to agro-climatic conditions and Government regulation

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Like all other agriculture-based products, production and pricing of milk and milk products is sensitive to environmental conditions and Government regulations. At times when there is shortage of liquid milk, the demand for SMP increases, leading to significant increase in its prices and vice versa. A steep decline in prices of SMP may lead to increase in inventory holding. Due to intense competition, agro climatic condition and government regulation the profit margins remains volatile.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

MC Traders has an adequate liquidity with gross cash accrual of Rs1.22 crore against repayment of Rs 0.38 crore as on March31,2020. The working capital limit remained moderately utilised at 73% over the twelve months ended March 2021 with an operating cycle of 65 days. The current ratio stood at 1.31x March 31,2020. The firm has expected cash accrual in the range Rs 1.88 to 2.03 crore with repayment of Rs 0.88 to Rs0.96crore. Liquidity is further supported by continuous infusion of equity and unsecured loans by the proprietor.



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About the Company

M.C Traders was established in 1982 as a proprietorship firm by Mr. Rakesh Kumar. MCT is engaged in manufacturing dairy products like desi ghee, lassi, curd, paneer under the brand name of "Today Milk". The manufacturing plant of the firm is situated in Nihal Singh Wala, Moga District, Punjab., with a milk processing capacity of ~ 1 lakhs litres per day in peak season. The products are sold in Chandigarh, Punjab and Himachal Pradesh

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	42.52	45.37
EBITDA	1.95	2.15
PAT	0.17	0.40
Total Debt	3.96	8.96
Adjusted Tangible Net worth	7.36	10.65
EBITDA Margin (%)	4.60	4.74
PAT Margin (%)	0.40	0.88
Overall Gearing Ratio	0.54	0.84

*Classification as per Infomerics' Standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	1.43	IVR BB; Stable Outlook	-	-	-
2.	Cash Credit	Long Term	7.00	IVR BB; Stable Outlook	-	-	-
3.	GCL- Covid line	Long Term	1.25	IVR BB; Stable Outlook	-	-	-
3.	CRCS- Covid line	Long Term	0.37	IVR BB; Stable Outlook	-	-	-



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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Smriti Jetly

Tel: (011) 24611910

Email: sjetly@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	March 17,2027	1.43	IVR BB; Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	7.00	IVR BB; Stable Outlook



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Long Term Bank Facility- Covid Line	-	-	June 20,2024	1.25	IVR BB; Stable Outlook
Long Term Bank Facility- Covid Line	-	-	May 16,2023	0.37	IVR BB; Stable Outlook

Annexure-II: Facility Wise Lender Details

<https://www.infomerics.com/admin/prfiles/len-MC-Traders.pdf>

