

# Infomerics Valuation And Rating Pvt. Ltd.

Press Release

## Patel Agri Industries Pvt Ltd

August 29, 2019

### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities -Cash Credit	30.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term Facilities -Term Loan	18.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
<b>Total</b>	<b>48.00</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Patel Agri Industries Pvt Ltd (PAIPL) derives comfort from financial support extended by the promoters, proximity to paddy growing areas, healthy growth in operations, prudent working capital management and favourable demand prospects for rice. However, the rating strengths are partially offset by its short track record of operations, average financial risk profile, exposure to agro-climatic risk, fragmented nature of industry leading to thin profit margins and vulnerability to changes in government policies. Growth in scale of operations with improvement in profitability, gearing level and efficient working capital management are the key rating sensitivities.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### Financial support extended by the promoters

The promoters have been extending constant financial support to the company. In FY19, the promoters infused equity of Rs.4.03 crore. Besides, they have also extended non-interest bearing unsecured loans to the tune of ~Rs.10 crore as on March 31, 2019.

##### Proximity to paddy growing areas

The primary raw material, paddy, is available in abundant quantity in Nalanda district of Bihar. This results in easy availability of quality raw materials and savings in transportation costs.

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### **Healthy growth in operations**

PAIPL has grown its revenues at a CAGR of ~85% over FY17-FY19 with a y-o-y growth of ~112% in FY19. The sharp increase in revenues in FY19 is a result of increase in capacity (from 16 tons per hour to 32 tons per hour) coupled with healthy utilization levels leading to higher sales volumes. Further, with growth in operations, profitability and cash accruals have remained satisfactory during the aforesaid period.

### **Prudent working capital management**

Working capital management is efficient, backed by low cash conversion cycle (29 days in FY19). The company managed its receivables cycle well which gets reflected in the average debtor days of around 9 in FY19. The company incentivizes early payment from its debtors by offering upfront cash discounts and penalizing late payments, which has helped in containing the debtor days. Besides, the company follows an order backed strategy for inventory (during the harvesting and non-harvesting season), due to easy availability of paddy in the surrounding area.

### **Favourable demand prospects for rice**

The prospects of the industry are expected to remain good given that rice is the staple food for majority Indians and India is the world's second largest consumer of rice.

### **Key Rating Weaknesses**

#### **Short track record**

PAIPL began operations in August 2015 and has less than four years of experience in the rice milling business. However, despite the same, the company has achieved significant scale in operations aided by increase in capacity in FY19.

#### **Average financial risk profile**

PAIPL's financial risk profile is moderate marked by overall gearing of 1.48x (treating the unsecured loans amounting to ~Rs.10 crore as neither debt nor equity). Infomerics expects that unsecured loans amounting to ~Rs.10 crore will remain in the business till the maturity

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of the bank facilities. Furthermore, coverage indicators of the company stood satisfactory with interest coverage of 4.96x in FY19 (improved from 2.78x in FY18).

### **Exposure to agro-climatic risk**

Cultivation of paddy, the primary raw material, depends on monsoon and availability of irrigation. Hence, PAIPL is susceptible to any shortage or price fluctuation during unfavourable climatic conditions.

### **Fragmented nature of the industry leading to thin profit margins**

The rice-milling industry is characterised by intense competition due to limited value addition, and consequent low entry barriers, limiting the pricing flexibility of players like PAIPL. As a result, the profit margins remained thin with operating margin of 3.60% and net margin of 0.77% in FY19.

### **Vulnerability to changes in Government policies**

The rice industry is regulated in terms of paddy prices, export/import of rice, and the release mechanism. Thus, the company remains exposed to changes in Government policies in relation to stipulation of MSP for procurement of paddy from farmers and revision of policies on export, etc.

**Analytical Approach:** Standalone.

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity**

The company has adequate liquidity characterized by its comfortable current ratio as on March 31, 2019 (Prov.) and sufficient cushion in accruals vis-à-vis repayment obligations. The average utilisation of its bank limits remained at around 73% in the past 12 months ended on July 31, 2019 indicating adequate liquidity buffer.

### **About the Company**

Incorporated in 2013, Patel Agri Industries Pvt Ltd (PAIPL) is promoted by Mr. Dilip Kumar and his brothers based out of Bihar. The company started its commercial operations from August, 2015 and is engaged in the milling of paddy to produce raw and boiled rice. The rice

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mill is located in the Nalanda district of Bihar, with an installed milling capacity of 32 tons per hour.

### Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	155.98	330.69
EBITDA	5.26	11.91
PAT	1.19	2.55
Total Debt (Excl. Subordinated Loans)	29.45	33.23
Tangible Net worth	15.77	22.41
EBITDA Margin (%)	3.37	3.60
Overall Gearing Ratio (x) (Excl. Subordinated Loans)	1.87	1.48

\*Classification as per Infomerics' standards.

### Status of non-cooperation with previous CRA:

Ind-Ra has moved the rating of PAIPL into the Issuer Non-Cooperating category as the firm did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated June 21, 2019.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	30.00	IVR BBB- / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits - Term Loan	Long Term	18.00	IVR BBB- / Stable Outlook			

**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](http://www.infomerics.com).

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### 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 Fund Based Limits–Cash Credit	-	-	-	30.00	IVR BBB-/Stable Outlook
Long Term Fund Based Limits–Term Loan	-	-	November 2024	18.00	IVR BBB-/Stable Outlook