

Press Release



Saraswati Rice Industries

20 June, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.6.00 Crore
Long Term Rating	SMERA B/Stable (Upgraded from SMERA B-/Stable)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long-term rating to **'SMERA B' (read as SMERA B)** from **'SMERA B-' (read as SMERA B minus)** on the Rs.6.00 crore bank facilities of Saraswati Rice Industries. The outlook continues to be **'Stable'**.

The Haryana-based Saraswati Rice Industries (SRI) is a partnership firm established in 1998. The firm is engaged in the processing and milling of rice (basmati) and non-basmati and has an installed capacity of 1 ton per hour. It is led by Mr. Sashi Pal Gupta (Partner) and Mrs. Anita Rani (Partner) who possess experience of around two decades in the rice milling industry.

The rating upgrade factors in the improvement in the business risk profile and scale of operations. The working capital cycle has also improved due to better inventory management.

List of key rating drivers and their detailed description

Strengths:

Experienced Partners: The partners, Mr. Sashi Pal Gupta & Mrs. Anita Rani have experience of around two decades in the rice milling business.

Modest scale of operations: The rating factors in the modest scale of operations marked by operating income of Rs.32.32 crore in FY2017 as compared to Rs. 18.99 crore in FY2016. The increase in the revenue is mainly on account addition of new customers and geographies in the current fiscal year i.e. FY2017. SRI is primarily been engaged in milling and processing of rice. The firm's ability to scale up operations while maintaining its prudent profitability structure shall be a key credit monitorable.

Improvement in working capital cycle: The improvement in the working capital cycle is marked by gross current assets (GCA) of 75 days in FY2017 (as compared to 143 days in FY2016). This is on account of improved inventory and better realisation of debtors of 64 days and 4 days respectively.

Weaknesses:

Average financial risk profile: The average financial risk profile is marked by low networth of Rs.2.66 crore as on 31 March, 2017 supported by unsecured loan of Rs.1.35 crore treated as quasi equity in FY2017. SMERA has treated the unsecured loans as quasi equity as the amount from promoters is subordinated to the bank loan facilities availed by the firm. The interest coverage of the firm stands at

1.39 times in FY2017 as against 1.11 times in the previous year. The net cash accrual by total debt (NCA/TD) stands low at 0.07 percent in FY2017 as compared to 0.02 times in FY2016. Further, the gearing has been moderate at 2.00 times in the FY 2017 on account of low networth of Rs.2.66 crore as against the total debt of Rs.5.33 crore in FY2016-17. The total debt includes working capital facility of Rs. 17.40 cr and a term loan of Rs. 0.57 cr.

SMERA expects the firm to continue to maintain an average risk profile in the medium term. The firm's ability to improve its net worth along with debt protection metrics will remain key credit monitorables.

Competitive and fragmented nature of industry: Rice milling is a highly competitive industry due to low entry barriers which results in intense competition from the organised as well as unorganised players.

Agro climatic risk: Paddy, the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon. Thus inadequate rainfall may affect the availability of paddy in adverse weather conditions.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the firm to arrive the rating.

Applicable Criteria

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the firm will maintain a stable owing to extensive experience of the promoters in the rice milling business. The outlook may be revised to 'Positive' in case of sustained increase in revenues and accruals while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in capital structure or deterioration of financial risk profile.

About the Rated Entity – Key Financials

For FY2017, the firm reported profit after tax (PAT) of Rs.0.04 crore on operating income of Rs.32.32 crore, as compared with PAT of Rs.0.02 crore on operating income of Rs.18.99 crore in FY2016. The net worth stood at Rs.2.66 crore as on March 31, 2017 against Rs.1.18 crore a year earlier. The net worth of Rs.2.66 crore in FY2016 includes quasi-equity of 1.35 crore.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years

Name of Instrument /Facilities	FY 2018			FY 2017		FY 2016		FY 2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	5.25	SMERA B/Stable (Upgraded)	31 March	SMERA B-/Stable (Reaffirmed)	10 Feb	SMERA B-/Stable (Assigned)	-	-
Proposed	L T	0.75	SMERA B/Stable (Upgraded)	31 March	SMERA B-/Stable (Reaffirmed)	10 Feb	SMERA B-/Stable (Assigned)	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue(Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	5.25	SMERA B/Stable (Upgraded from SMERA B-/Stable)
Proposed	N.A	N.A	N.A	0.75	SMERA B/Stable (Upgraded from SMERA B-/Stable)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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