

Sri Vijayadurga Industries: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	5.00	SMERA B-/Stable (Assigned)
Inventory Funding	3.50	SMERA B-/Stable (Assigned)
Proposed Fund/Non-Fund Based	1.00	SMERA B-/Stable/SMERA A4 (Assigned)

SMERA has assigned long term rating of '**SMERA B-**' (**read as SMERA B minus**) and Short term rating of '**SMERA A4** (**read as SMERA A four**) to the Rs.9.50 crore long (fund based) bank facilities of Sri Vijayadurga Industries (SVI). The outlook is '**Stable**'.

The rating draws comfort from the extensive experience of the promoters and improving operating income. However, the rating is constrained by the firm's below average financial risk profile and working capital intensive operations. The rating also factors in the agro climatic risks, exposure to fluctuations in raw material prices and the competitive and fragmented rice milling business.

SVI is headed by Mr. G. Srinivas Rao (Promoter) who possesses over two decades of experience in the rice mill industry. The firm's operating income registered healthy revenue growth rate with CAGR of 25.14 per cent for the period FY2013-16 on the back of increase in order book value. The operating income stands at Rs.20.77 crore in FY2016 (Provisional) as compared to Rs.17.14 crore in FY2015 and Rs.11.99 in FY2014.

The firm's financial risk profile is marked by low net worth of Rs.2.19 crore as on March 31, 2016 (Provisionals). The ratings are also constrained by the firm's stretched liquidity profile as cash accruals are tightly matched with repayment obligations. The ICR stands at 1.16 times for FY2016 (Provisionals) as against 1.15 times in FY2015. Further, the gearing stands at 4.79 times as on March 31, 2016 (Provisionals).

Besides, the profits of the firm are susceptible to fluctuations in raw material (paddy) prices. The margins of the firm have shown an uneven trend over the previous years. In FY2013, the EBITDA stood at 4.92 per cent which declined to 3.16 per cent in FY2014 and further to 2.72 per cent in FY2015. However, as per FY2015-16 (Provisionals), EBITDA margins increased and stood at 3.38 per cent. The PAT margin stood at 0.33 per cent in FY2016 (Provisionals) as compared to 0.19 per cent FY2015.

SVI's operations are working capital intensive due to high Gross Current Asset days (GCAs) of 221 on account of high inventory days of 206.

SVI is exposed to risks related to fluctuations in raw material prices as paddy prices are largely dependent on several external factors such as domestic demand outlook, international trade regulations and domestic production. Thus the firm is exposed to significant risk related to raw material fluctuation. Further, the firm operates in a highly competitive and fragmented industry on account of large number of organised and unorganised players.

Rating Sensitivity Factors

- Volatility in raw material prices impacting profitability
- Sustainable and substantial growth in revenues with improvement in profitability
- Improvement in the financial risk profile

Outlook-Stable

SMERA believes that SVI will maintain a stable outlook and benefit over the medium term from the experienced management and established presence in the agro-industry. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially while improving operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins decline in the medium term due to fluctuations in raw material prices resulting in further deterioration in the financial risk profile.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Firm

SVI, incorporated in April 1995 as a partnership firm by Mr. G. Srinivas Rao is engaged in the manufacturing and processing of rice. The firm sells its products under the 'Durgadevi' brand name in Karnataka. The installed capacity of the firm stands at 3 tons/hour and its current production is around 50 per cent of installed capacity.

The firm registered operating income of Rs.17.94 crore for FY2015 with profit after tax (PAT) of Rs.0.03 crore as against operating income of Rs.11.99 crore with profit after tax (PAT) of Rs.0.03 crore. Further, as per FY2016 (Provisionals), profit after tax (PAT) stands at Rs.0.07 crore on operating income of Rs.20.77 crore.

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ABOUT SMERA

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