

Press Release

Shri Ram Rice Unit

September 24, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.45.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.45.00 crore bank facilities of SHRI RAM RICE UNIT. The outlook is '**Stable**'.

Established in 1997, Shri Ram Rice Unit (SRRU) is a Karnal (Haryana) based partnership concern engaged in the milling and processing of basmati and non-basmati rice. The firm is being promoted by Mr. Sadhu Ram, Mr. Ravinder Kumar, Mr. Sanjay Kumar and Mr. Vijay Kumar. The firm has an installed capacity of 8 metric tons rice per hour.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Shri Ram Rice Unit (SRRU) and S R Overseas (SRO), hereafter referred to as Shri Ram Group. The consolidation is in view of similarity in the line of business, inter-company transactions and common management. Extent of consolidation: Full

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Shri Ram Group is promoted by Mr. Sadhu Ram and his family, who have around two decades of experience in the aforementioned industry and being in the agriculture business for a considerable amount of time has helped them maintain good relations with its customers and suppliers and established a presence in the northern part of the country. Further, experience of the partners has also helped the group to increase its operating income, operating income grew at ~18 per cent in FY2019 (Provisional) over FY2018 and stood at Rs.319.87 crore. Acuité believes that the group will continue to derive benefit from its experienced management over the medium term.

- **Proximity to raw material source**

Shri Ram Group has a manufacturing unit at Karnal (Haryana) with installed capacity of 8 metric tonnes of rice per hour. Haryana and Punjab being a major rice producing region enables easy access to raw material i.e. paddy.

Weaknesses

- **Average financial risk profile**

Shri Ram Group has average financial risk profile marked by moderate net worth, moderate debt protection metrics and high gearing. The net worth of the group stood at Rs.35.18 crore as on 31 March, 2019 (Provisional) as against Rs.31.24 crore as on 31 March, 2018. The gearing level (debt-equity) stood at 2.27 times as on 31 March, 2019 (Provisional) as against 3.09 times as on 31 March, 2018. The total debt of Rs.79.89 crore as on 31 March, 2019 (Provisional) consists of long term debt of Rs.0.25 crore, and working capital borrowings of Rs.79.63 crore. Improvement in operating income has resulted in improved net cash accruals of Rs.5.89 crore in FY2019 (Provisional) leading to moderate debt protection measures. The interest coverage ratio (ICR) stood at 2.17 times in FY2019 (Provisional) as against 1.70 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.07 times in FY2019 (Provisional) and 0.04 times in FY2018. Debt to EBITDA stood at 7.39 times in FY2019 (Provisional).

- **Working capital intensive nature of operations**

Operations of Shri Ram Group are working capital intensive marked by Gross Current Asset (GCA) of 140 days in FY2019 (Provisional) as compared to 165 days in FY2018. This is on account of debtors' collection period of 45 days in FY2019 (Provisional) as against 77 days in FY2018 and inventory holding period of 95 days in FY2019 (Provisional) as against 90 days in FY2018. However, current ratio of the group stood moderate at 1.23 times as on 31 March, 2019 (Provisional). Acuité believes that the working capital operations of the group will continue to remain intensive on account of high level of inventory holding period.

- **Agro climatic risks**

Shri Ram Group faces agro climatic risk as paddy, the main raw material required for rice milling is a seasonal crop and production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall may affect the availability of paddy in adverse weather conditions, which will in turn impact the financial risk profile of the group.

Liquidity Profile

Shri Ram Group has adequate liquidity marked by average net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.5.83 crore in FY2019 (Provisional) as against debt obligations of Rs.0.25 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.7.40 crore to Rs.9.69 crore during FY2020-22 against no repayment obligations for the same period. The group's working capital operations are intensive marked by gross current asset (GCA) days of 140 days in FY2019 (Provisional). The current ratio stood at 1.23 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of average cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook for the group will remain 'Stable' over the medium term on account of the management's extensive experience in the rice milling business. The outlook may be revised to 'Positive' if the group achieves higher than expected revenue and net cash accruals while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity profile or financial risk profile due to larger than expected debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	319.87	272.15	197.52
EBITDA	Rs. Cr.	10.57	9.80	7.82
PAT	Rs. Cr.	4.39	2.54	2.79
EBITDA Margin	(%)	3.30	3.60	3.96
PAT Margin	(%)	1.37	0.93	1.41
ROCE	(%)	7.72	7.35	7.68
Total Debt/Tangible Net Worth	Times	2.27	3.09	3.40
PBDIT/Interest	Times	2.17	1.70	2.03
Total Debt/PBDIT	Times	7.39	9.74	9.92
Gross Current Assets (Days)	Days	140	165	174

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Jul-2018	Cash Credit	Long term	45.00	ACUITE BB/Stable (Reaffirmed)
21-Apr-17	Cash Credit	Long term	45.00	ACUITE BB/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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