

Press Release

Shivadarshan Agro Industries

May 16, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 9.39 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs.9.39 cr bank facilities of Shivadarshan Agro Industries (SAI). The outlook is '**Stable**'.

Shivadarshan Agro Industries (SAI) established in the year 2001 is a Mangalore based partnership firm engaged in rice milling activity. The firm is promoted by Mrs. Vanitha Nayak, Mr. Revathi B. Nayak, Mr. Balakrishna C. Nayak, Mr. Poornima V. Mallya and Mrs. Malathi S. Mallya. Its operations are managed by Mr. Balakrishna C Nayak. SAI has an installed rice milling capacity of 7,200 tonnes per annum and caters to the domestic market including states like Karnataka and Kerala.

List of key rating drivers and their detailed description

Strengths

Established track record of operations and experienced promoters

SAI is engaged in the rice milling activity for around sixteen years leading to established relation with its customers and suppliers. The day to day operations of the firm is handled by Mr. Balakrishna C. Nayak who has around four decades of experience in the rice milling business.

Proximity to raw materials

The processing facility of SAI is located in Karnataka, which is one of the major rice producing states in India. Around 80 percent of the total rice requirement is procured from Karnataka and remaining from other states like Madhya Pradesh, Tamil Nadu, Odissa and Maharashtra. Thus, SAI benefits from its proximity to raw materials.

Moderate financial risk profile

SAI's financial risk profile is moderate marked by moderate gearing of 1.21 times as on March 31, 2016 as against 1.24 times in the previous year. The interest coverage ratio stood at 1.82 times for FY2015-16 as against 1.90 times in FY2014-15.

Weaknesses

Decline in revenue

SAI has reported operating income of Rs. 22.95 crore for FY2015-16 as against Rs.29.58 crore in FY2014-15, a 23.00 percent decline in sales. The reason for the fall in sales is on account of fall in orders from customers in Kerala. Further, as informed by management SAI has reported operating income of Rs.22.00 crore (provisional) during April, 2016 to February, 2017.

Working Capital intensive nature of operations

The operations of SAI are working capital intensive as the working capital cycle days stood at 266 days in FY2015-16 as against 178 days in the previous year. The elongated working capital cycle is due to the seasonal procurement of paddy which is during the month of February to March leading to high amount of inventory holding at the year end. Further, the liquidity position of the firm is stretched as the cash credit limit is fully utilized during the last six months ended February, 2017.

Agro climatic risks

Paddy which is the main raw material required for rice is a seasonal crop and the production of the same is highly dependent upon agro climatic conditions. Hence any adverse weather conditions may affect the availability of paddy.

Competitive and fragmented nature of rice milling business

Rice milling is a highly competitive industry due to low entry barriers which results in intense competition from both the organized as well as unorganized players in the industry.

Partnership based constitution

SAI is exposed to the capital withdrawal risk on account of partnership constitution of the firm.

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

Applicable Criteria

Manufacturing Entities <https://www.smera.in/criteria-manufacturing.htm>

Default Recognition - <https://www.smera.in/criteria-default.htm>

Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that outlook for SAI will remain 'Stable' over medium term on the account of extensive experience of the promoters in the rice milling business. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue while maintaining profitability and effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case if there is deterioration in the liquidity profile or financial risk profile due to larger-than expected debt funded capital expenditure.

About the Rated Entity –Key Financials

For FY2015-16, SAI reported net profit of Rs. 0.35 crore on operating income of Rs. 22.95 crore, as compared to net profit of Rs. 0.36 crore on operating income of Rs. 29.58 crore in the previous year. The networth of the firm stood at Rs. 8.02 crore as on 31st March, 2016 as against Rs. 7.60 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***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.	9.00	SMERA BB-/Stable (Assigned)
Warehouse Receipt Loan	N.A	N.A	N.A.	0.30	SMERA BB-/Stable (Assigned)
Term Loan	N.A	N.A	N.A.	0.09	SMERA BB-/Stable (Assigned)

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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