

Press Release

Sri Satyanarayana Raw and Boiled Rice Mill Private Limited

June 16, 2018

Rating Reaffirmed and Withdrawn



Total Bank Facilities Rated*	Rs. 53.00 crore
Long Term Rating	ACUITE BB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating at '**ACUITE BB-**' (read as **ACUITE double B minus**) and withdrawn short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.53.00 crore bank facilities of Sri Satyanarayana Raw and Boiled Rice Mill Private Limited (SSRB). The outlook is '**Stable**'.

Sri Satyanarayana Raw and Boiled Rice Mill Private Limited (SSRB) was incorporated in 1998 by Mr. Bonda Venkateswara Rao as a rice mill with installed capacity of 120 tonnes per day. The company has now changed its business model and derives majority of its revenue from paddy trading.

Key Rating Drivers

Strengths:

- Extensive experience of promoters and moderate scale of operations**

The promoter has two decades of experience in rice milling and paddy trading which has helped the company build healthy relationship with local farmers, traders and wholesalers, to ensure a steady raw material supply and large offtake. The company was earlier into milling of paddy and selling the same in markets of Andhra Pradesh (AP), Telangana (TS), Kerala and was also exporting. However, due to intense competition in the domestic market and poor realisations and exchange fluctuations in export business, now the company has switched to stocking and trading of premium non-basmati paddy, and obtains marginal revenues of about 2-5 percent from paddy processing. The company majorly procures paddy from local farmers and through agents across Andhra Pradesh and Telangana. The company has its own brand name known as 'AMRUTA'. Despite rising minimum support price (MSP) of common grade paddy over the years from Rs.1410 per quintal in FY2016 to Rs.1750 in FY2019 and increasing competition leading to lower brand absorption of 'AMRUTA' brand leading to lower realisations, the company showed healthy growth in revenue from Rs.73.70 crore in FY16 to Rs.100.28 crore (Provisional) in FY18 by diversifying into paddy trading. SSRB has booked revenues of Rs.24.00 crore till June, 2018. Acuite believes that promoter's extensive experience in rice industry would aid the business risk profile of the company over the medium term.

- Efficient working capital management**

SSRB's operations were previously intensive with Gross Current Assets (GCA) of about 172 days in FY2017, and 203 days in FY2016. However, with the change in the business model from paddy milling to paddy trading the GCA at year end has come down to about 100 days as of March 31, 2018 on provisional basis. However, the peak season for procuring and stocking is March to June. The company procures higher paddy during the peak seasons and keeps it for ageing for value realisation. Also,

during the non-peak season, the company procures paddy from from traders as well. SSRB sells to traders and offers credit period of around 20-30 days to its customers across Kerala and Andhra Pradesh. SSRB Procures from farmers and traders from whom the company gets a credit period of 10-15 days and 20-30 days, respectively. Acuite believes that with the change in the business model, the operations will continue to be working capital efficient barring peak season operations.

Weaknesses:

- **Below-average financial risk profile**

SSRB's financial risk profile is marked by weak debt protection metrics and average total outside liabilities to total net worth (TOL/TNW). SSRB's modest net cash accruals and high debt has led to modest NCA/TD and interest coverage ratio of 0.02 times and 1.20 times in FY18 (Provisional) vis-à-vis 0.03 times and 1.29 times in FY17. It is lower than expected due to lower than estimated cash accruals. However, TOL/TNW has been improving from 4.23 times as on 31 March, 2016 to 2.42 times as on 31 March, 2018 on provisional due to lower reliance on bank lines. Net worth has remained moderate at Rs.14.18 crore (Provisional) as on 31 March, 2018 vis-à-vis Rs.14.20 crore as on 31 March, 2017. This is because of better inventory management wherein the inventory days decreased to 101 days in FY18 from 203 days in FY16 due to change in the business model from paddy milling to trading activity.

- **Low operating profitability**

Operating margin has been weak at about 2.97 percent (Provisional) in FY18 driven by the commoditised nature of product and low value addition with increased proportion being derived from paddy trading. Acuite believes that being into trading nature of operations, the margins are expected to be at sub-levels of 3 percent over the medium term.

- **Susceptibility to adverse government regulations and volatile raw material prices**

As paddy cultivation depends on monsoon and availability of irrigation, the company remains susceptible to shortage of paddy, or price fluctuations because of unfavourable climatic conditions. Profitability is also vulnerable to government regulations such as change in duties and tariffs, which impact the final product cost.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SSRB to arrive at this rating.

Outlook:

Acuite believes that SSRB will maintain a 'Stable' outlook on the back of the management's extensive experience in the rice milling business and its established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	100.28	80.97	73.70
EBITDA	Rs. Cr.	2.98	5.84	8.67
PAT	Rs. Cr.	0.05	0.05	0.04
EBITDA Margin	(%)	2.97	7.21	11.77
PAT Margin	(%)	0.00	0.06	0.06
ROCE	(%)	4.38	7.32	9.45
Total Debt/Tangible Net Worth	Times	1.76	3.34	3.77
PBDIT/Interest	Times	1.20	1.29	1.18
Total Debt/PBDIT	Times	7.99	7.97	6
Gross Current Assets (Days)	Days	126	232	286

Status of non-cooperation with previous CRA:

CRISIL in the press release dated August 17, 2017 has suspended the rating of Sri Satyanarayana Raw and Boiled Rice Mill Private Limited and has stated the following "The suspension of ratings is on account of non-cooperation by SSRB with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, SSRB is yet to provide adequate information to enable CRISIL to assess SSRB's ability to service its debt.

Any other information:

Not Available

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities: <https://www.acuite.in/criteria-trading.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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. Crore)	Ratings/Outlook
12-Sep-2017	Cash Credit	Long term	30.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long term	1.60	ACUITE BB-/Stable (Assigned)
	Export Packing Credit	Short term	15.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short term	5.00	ACUITE A4+ (Assigned)
	Proposed Bank facility	Long term	1.40	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB-/Stable (Reaffirmed)
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Withdrawn)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuited.in</p> <p>Neha Agarwal Senior Analyst - Rating Operations Tel: 040-40045487 neha.agarwal@acuiterratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuited.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.