

Sri Satyanarayana Swamy Parboiled Modern Rice Mill

Press Release

August 03, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 crore
Long Term Rating	ACUITE BB/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.10.00 crore bank facilities of Sri Satyanarayana Swamy Parboiled Modern Rice Mill (SSSP). The outlook is '**Stable**'.

Established in 1985 as a partnership firm, Sri Satyanarayana Swamy Parboiled Modern Rice Mill (SSSP) is engaged in milling of paddy and processing of boiled and raw rice. Based in Suryapet (Telangana), the firm is promoted and managed by Mr. G Prabhakar. It has installed milling capacity of 10 tonnes per hour of paddy. It also owns a captive power plant of 1 Mega Watt (MW).

Key Rating Drivers

Strengths:

- Extensive experience of Partner**

The Partner has three decades of experience in paddy milling which has helped the SSSP build healthy relationship with local farmers, traders and wholesalers, to ensure a steady raw material supply and large offtake. 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, the firm showed healthy growth in revenue from Rs.23.90 crore in FY2016 to Rs.62.43 crore (Provisional) in FY2018. Acuité believes that the promoter's extensive experience in rice industry would aid the business risk profile of the firm over the medium term.

- Efficient working capital management**

SSSP's operations are efficient with Gross Current Asset (GCA) days of about 48 as on March, 2018 (Provisional) against 81 days as on March, 2017. The GCA entails its low debtor and inventory days. SSSP maintains an average inventory of around 1-2 months for smooth running of operations. The peak season is November to January and April to June. It procures higher paddy during the peak seasons and stores it for non-peak season. Also, during the non-peak season, it procures from traders. The inventory days as on March, 2018 are low at 20 days on provisional basis as the peak season started from April. The inventory days have been in the range of 20-124 days over the past three years ending March, 2018 depending upon the onset of the Kharif season and availability of water for cultivation. Its bank lines are moderately utilised at 73 percent over ten months through June, 2018. SSSP has a wide customer base across the states of Kerala, Andhra Pradesh, and Telangana with sales made to traders and dealers who cater to domestic markets and merchandise export too. It provides credit period extending from cash basis to 30 days. SSSP procures paddy from farmers and traders. With farmers, it deals on cash basis and with traders, it gets maximum credit period of 5-10 days. Acuité believes that SSSP's operations will continue to be working capital efficient barring peak season operations.

- **Moderate financial risk profile**

SSSP's financial risk profile is marked by moderate capital structure and debt protection metrics. SSSP's gearing (debt-to-equity) was moderate at 1.88 times as on March, 2018 (Provisional); the same is an improvement from 2.39 times as on March, 2016 on account of improving accretion to reserves, repayment of term loans and moderate dependence on bank lines. The net worth is modest at Rs.5.26 crore as on March, 2018 (Provisional) vis-à-vis Rs.4.91 crore as on March, 2017; and moderate debt levels of Rs.9.88 crore as on March, 2018 (Provisional) against Rs.12.01 crore as on March, 2017. SSSP's moderate net cash accruals and debt has led to comfortable net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.14 times and 2.07 times respectively in FY2018 (Provisional) vis-à-vis 0.09 times and 2.48 times respectively in FY2017. With improving topline underpinning higher net cash accruals, the debt protection metrics are expected to improve over the medium term.

Weaknesses:

- **Moderate operating profitability**

Operating margins have been moderate at about 4.65 percent (Provisional) in FY2018 driven by the commoditised nature of product and low value addition. Acuité believes that being into low-value addition nature of operations, the margins are expected to be in similar range over the medium term.

- **Fragmented industry and susceptibility to adverse government regulations and volatile in raw material prices**

SSSP is operating in a fragmented industry with several unorganised and large organised players leading to competition and volatile realisation in prices. Also, SSSP's revenues are average at about Rs.62.4 crore in FY2018 on provisional basis within the industry. The scale of operations is primarily constrained by limited installed capacity, availability of paddy, working capital nature and price fluctuations because of unfavourable climatic conditions. Profitability is also vulnerable to government regulations such as change in duties and tariffs, which impacts the final product pricing. Although steady growth in revenues is expected over the medium term, the scale of operations will remain around these levels, exposing the firm to risks relating to intense competition.

Analytical Approach

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

Outlook:

Acuité believes that SSSP 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 while improving the capital structure. 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.	62.43	41.94	23.94
EBITDA	Rs. Cr.	2.90	1.79	0.78
PAT	Rs. Cr.	0.21	0.25	-0.09
EBITDA Margin	(%)	4.65	4.28	3.25
PAT Margin	(%)	0.34	0.59	-0.38
ROCE	(%)	10.77	5.98	3.40
Total Debt/Tangible Net Worth	Times	1.88	2.44	2.39
PBDIT/Interest	Times	2.07	2.48	1.35
Total Debt/PBDIT	Times	3.38	6.55	14.25
Gross Current Assets (Days)	Days	48	85	153

Status of non-cooperation with previous CRA:

None

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/criteria-manufacturing.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):

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	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Rating Operations Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Neha Agarwal Senior Analyst - Rating Operations Tel: 040-40045487 neha.agarwal@acuite.ratings.in	

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.