

Press Release

Sri Satyanarayana Swamy Parboiled Modern Rice Mill

October 11, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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, Telangana-based SSSP is a partnership firm engaged in milling and processing of parboiled and raw rice. The firm is promoted by Mr. G Prabhakar, who has over three decades experience in the industry. The firm's processing facility is located at Suryapet District of Telangana. The firm operates in the states of Maharashtra, Kerala and Karnataka.

Analytical Approach

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

Key Rating Drivers

Strengths

• Extensive experience of promoters:

SSSP commenced its operations in 1985 led by Mr. Gajji Prabhakar, Managing Partner of the firm. Mr. Gajji has been in the industry of over three decades. He is supported by his son Mr. Gajji Vasu, who looks after the day-to-day operations of the firm.

The extensive experience of the promoters in the industry has enabled them to build customer and supplier relations, which support the business profile of the firm. This also enables the promoters to pass on any increase in its raw material price to its customers.

Acuite believes that the promoter's extensive experience in rice industry would aid the business risk profile of the firm over the medium term.

Weaknesses

• Average Financial Risk Profile:

SSSP's financial risk profile is average marked by moderate capital structure and debt protection metrics. The firm's capital structure remained moderate at 1.81 times as on March 31, 2019 (provisional) (Previous year: 1.86 times). The networth stood at Rs. 6.55 crore as on March 31, 2019 (provisional) (Previous year: Rs. 5.25 crore) and the overall borrowings stood at Rs. 11.84 crore. The partners have infused capital of Rs. 1.07 crore in FY2019. The company has sanctioned working capital limit of Rs. 10.00 crore as on March 31, 2019.

The net cash accruals to total debts (NCA/TD) and interest coverage ratio for FY2019 (provisional) were moderate at 0.12 per cent and 2.19 times, respectively.

Acuite expects the financial risk profile to be maintained at existing levels with capex for upgradation of facilities at regular intervals.

• Working capital intensive nature of operation:

SSSP's working capital intensity has increased as reflected in spike in gross current assets (GCA) to 74 days for FY2019 (provisional) as against 48 days for FY2018. The increase in GCA days is primarily on account of increased inventory holding of 41 days in FY 2019 (provisional) as against 20 days in FY 2018; signifying slow movement in offtake. Debtor days also increased to 32 days for FY2019

(provisional) as compared to 26 days in FY2018, resulting in reliance on working capital funding from banks to meet its working capital requirements.

Acuite believes that credit profile of the firm will be influenced by its ability to manage its working capital cycle efficiently along with sustained growth in revenue and profitability.

• Susceptibility of operating margins to government regulation in raw material prices:

The firm primarily processes paddy, which is regulated by the government (Ministry of Agriculture & Farmers Welfare) with an aim to safeguard farmer's income via minimum support price (MSP) mechanism. This MSP is revised over each season of the crop. Further, SSSP has limited flexibility while passing on the raw material price changes to the customers because of fragmented industry and numerous unorganized players in the market. These factors are likely to impinge on the profitability of players such as SSSP over the medium term.

Acuite believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivity:

- Significant decline in scale of operation and profitability
- Further increase in GCA (gross current asset) days from existing levels.

Material Covenants

None

Liquidity: Adequate

The liquidity profile of the firm is adequate as characterized by sufficient cushion in accruals of Rs. 1.39 crore for FY2019 as against repayment obligation of Rs. 0.64 crore and modest cash balance of Rs. 0.13 crore. The firm's bank limit utilization remained high at ~93 per cent for six months ended August, 2019.

Outlook: Stable

Acuite believes that SSSP will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and established relations with its customers. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues, while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of any higher than expected capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	53.53	62.42	41.94
EBITDA	Rs. Cr.	2.71	2.72	1.79
PAT	Rs. Cr.	0.23	0.30	0.25
EBITDA Margin	(%)	5.06	4.36	4.28
PAT Margin	(%)	0.43	0.49	0.59
ROCE	(%)	9.50	9.67	5.98
Total Debt/Tangible Net Worth	Times	1.81	1.86	2.44
PBDIT/Interest	Times	2.19	2.21	2.48
Total Debt/PBDIT	Times	4.31	3.57	6.55
Gross Current Assets (Days)	Days	74	48	85

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
03-Aug-2018	Cash Credit	Long Term	10.00	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	10.00	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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