

Press Release
Sri Satyalakshmi Rice Mill

December 03, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 11.50 Cr.
Long Term Rating	ACUITE BB-/Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.11.50 crore bank facilities of Sri Satyalakshmi Rice Mill (SSRM). The outlook is **'Stable'**.

Established in 1984 as a partnership firm, Sri Satya lakshmi Rice Mill (SSRM) is engaged in processing of raw and boiled rice. Based in Palakollu (Andhra Pradesh), the entity is promoted by Mr. Jagannadha Raju, Mr. Rama Koti Raju, Mr. Dharma Raju and Mr. Ramachandra Raju. The entity has sortex and milling capacity of 6 tonnes per hour (TPH).

The promoters have two more rice mills - Sri Jagannadha Surya Lakshmi Rice Mill (SJSLRM) and Balaji Rice Mill (BRM) established in 1981 and 1983 respectively. Both these rice mills are based out of Palakollu with milling capacity of 6 TPH each.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Sri Satyalakshmi Rice Mill, Sri Jagannadha Surya Lakshmi Rice Mill and Balaji Rice Mill (referred to as group) to arrive at the rating basis common management and similar line of business. Extent of Consolidation : Full.

Key Rating Drivers:

Strengths

• **Extensive experience of Partners**

The Partners have three decades of experience in paddy milling which has helped the group build healthy relationships with local farmers, traders and wholesalers, to ensure a steady raw material supply and large offtake. The units are located in Palakollu at West Godavari region of Andhra Pradesh which is abundant in paddy cultivation and provides continuous supply of raw material. Acuité believes that the group's financial risk profile is expected to be stable supported by vintage of the operations, and promoters presence in the industry.

• **Moderate working capital operations**

The group's operations are moderate with Gross Current Asset (GCA) of about 119 days as on March, 2018 against 133 days as on March, 2017. The GCA entails its moderate debtor and inventory days. The group maintains an average inventory of around 1-2 months for smooth running of operations. The peak seasons are November to January and April to June, although paddy is available throughout the period with traders. The inventory days as on March 31, 2018 are moderate at 60 days, and oscillate around 60-80 for the past three years ending March 31, 2018. Its bank lines are moderately utilised at about 70 percent over six months through October, 2018. The group has a wide customer base across the Andhra Pradesh with sales made to traders and dealers who cater to domestic markets and merchandise export too. It provides credit period extended from cash basis to 30 days. The group 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 the group's working capital operations continue to be at similar levels over the medium term.

Weaknesses

• Below-average financial risk profile

The group's financial risk profile is marked by moderate capital structure, however constrained by weak debt protection metrics. The group's gearing (debt-to-equity) was moderate at 1.23 times as on March, 2018; the same is an improvement from 2.51 times as on March, 2016 on account of moderate dependence on bank lines. The net worth is modest at Rs.9.57 crore as on March, 2018 vis-à-vis Rs.9.43 crore as on March, 2017. The group's stagnant revenues and thin profitability margins lead to weak debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.02 times and 1.12 times respectively in FY2018 vis-à-vis 0.02 times and 1.20 times respectively in FY2017. With stagnant revenues at about Rs.56.00 crore over the past three years and thin profitability, the financial risk profile is expected to be at similar levels over the medium term.

• Moderate operating profitability

Operating margins have been moderate at about 4.11 percent in FY2018 driven by the commoditised nature of product and low value addition. Acuite 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

The group is operating in a fragmented industry with several unorganised and large organised players leading to competition and volatile realisation in prices. Also, the group's revenues are average at about Rs.55.00 crore in FY2018 within the industry. The scale of operations is primarily constrained by limited installed capacity, availability of paddy, and working capital nature and price fluctuations because of unfavorable climatic conditions. Availability of paddy and profitability are susceptible to the monsoon, competition, minimum support price of paddy and rice controlled by Government among others. Improving its operations while maintaining the working capital management are the key rating sensitivity factors.

Outlook: Stable

Acuite believes that the group 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 significant growth in its revenues and improving its profitability while sustaining 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 - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	55.99	56.20	55.42
EBITDA	Rs. Cr.	2.30	2.07	3.18
PAT	Rs. Cr.	0.06	0.10	0.21
EBITDA Margin	(%)	4.11	3.69	5.73
PAT Margin	(%)	0.11	0.18	0.38
ROCE	(%)	9.36	6.52	7.63
Total Debt/Tangible Net Worth	Times	1.23	1.54	2.51
PBDIT/Interest	Times	1.12	1.20	1.17
Total Debt/PBDIT	Times	5.10	7.01	7.46
Gross Current Assets (Days)	Days	119	133	190

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

None

Any other information

None

Applicable Criteria

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-22.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
06-Sep-2018	Cash Credit	Long Term	6.00	ACUITE BB- (Indicative)
	Proposed Long Term Loan	Long Term	3.50	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Indicative)
20-Jun-2017	Cash Credit	Long Term	6.00	ACUITE BB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	3.50	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (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	5.00	ACUITE BB- / Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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