

Press Release

Sri Satyalakshmi Rice Mill

August 22, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite 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**) on the Rs. 11.50 Crore bank facilities of SRI SATYALAKSHMI RICE MILL. The outlook is '**Stable**'.

Re-affirmation of the rating reflects moderate revenues in line with the expectations, moderate working capital management though underpinned by weak debt protection metrics; further, the rating also factors in experienced management.

Established in 1984, as a partnership firm, Sri Satyalakshmi Rice Mill 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 installed capacity of 6 Tons 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

Acuite has considered the consolidated business and financial risk profiles of Sri Satyalakshmi Rice Mill, Sri Jagannadha Surya Lakshmi Rice Mill and Balaji Rice Mill (referred 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 Partner

The Partner has three decades of experience in paddy milling, which has helped the group build healthy relationship with local farmers, traders and wholesalers, to ensure a steady raw material supply and large offtake. The units are located in Palakollu, West Godavari region of Andhra Pradesh which is abundant in paddy cultivation and provides continuous supply of raw material. The group has a competent management supported by a team of well qualified and experienced second line personnel. Acuite believes that the promoter's extensive experience in rice industry would aid the business risk profile of the group over the medium term.

• Moderate working capital operations

The groups' operations are moderately working capital intensive which is evident by 117 days of WC days and 122 days of GCA days in FY2019, which is the result of moderately high inventory days and debtor days of 58 days and 59 days, respectively, to ensure uninterrupted smooth operations. The group gives credit period of 45-60 days to its customers who are majorly brokers and wholesale & retail rice shops. GCA days stood at 122 days in FY2019 and marginally improved from 118 days last year. Creditor days are nil or minimal on account of group's payment to its suppliers who are majorly farmers in 2-3 days. Going forward, the group's operations are expected to be moderately intensive in a medium term.

Weaknesses

• Below-average financial risk profile

The Group's financial risk profile is below average marked by its weak debt protection matrices and modest net worth. The group's interest coverage and debt servicing coverage ratios stood at 1.14 times and 1.12 times in FY2019 which is flat from previous years. Gearing and TOL/TNW deteriorated marginally to 1.54 times and 1.57 times in FY2019 from 1.23 times and 1.24 times last year on account of increase in utilisation of CC limits to support the growth in operations. NCA/TD is poor and flat at 0.02 times in last three years as a result of weak cash accruals of Rs 0.27 Cr and Rs 0.25 Cr in last two years ending FY2019. However, major constituents of debt are short term and USL, and hence the group has no CPLTD against its cash accruals. Going forward, the group is expected to have cash accruals of Rs.0.50 Cr against nil maturing obligations which gives cushion for any incremental working capital requirements and liquidity.

• Fragmented industry and susceptibility to adverse government regulations and volatile in raw material prices risk

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.63 crore in FY2019 (Prov) 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. 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 group to risks relating to intense competition.

Liquidity Position:

Liquidity position of the group is adequate which is evident by its moderate net cash accruals of Rs. 0.27 Cr against nil maturing debt obligations in FY2019. GCA days are moderately high at 122 days in FY 2019 and has led to moderate utilisation of bank limits by average of 66 per cent of six months ended July 2019. However, the current ratio of group deteriorated marginally from 2.05 times in FY2018 to 1.76 times in FY2019 (Prov). Acuite believes that going forward, the group's liquidity is expected to remain adequate on account of improving cash accruals against nil maturing debt obligations.

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 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 - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	63.46	55.99	56.20
EBITDA	Rs. Cr.	2.52	2.30	2.07
PAT	Rs. Cr.	0.10	0.06	0.10
EBITDA Margin	(%)	3.98	4.11	3.69
PAT Margin	(%)	0.16	0.11	0.18
ROCE	(%)	10.28	9.36	6.52
Total Debt/Tangible Net Worth	Times	1.54	1.23	1.54
PBDIT/Interest	Times	1.14	1.12	1.20
Total Debt/PBDIT	Times	5.89	5.10	7.01
Gross Current Assets (Days)	Days	122	118	133

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

None

Any other information

None

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>
- Consolidation Cases- <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. Cr.)	Ratings/Outlook
03-Dec-2018	Cash Credit	Long Term	5.00	ACUITE BB- / Stable (Reaffirmed)
	Proposed cash Credit	Long Term	1.50	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
06-Sep-2018	Cash Credit	Long Term	6.00	ACUITE BB- (Indicative)
	Proposed cash Credit	Long Term	3.50	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Indicative)
20-June-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. Cr.)	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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