

Press Release

Sri Jagannadha Surya Lakshmi Rice Mill

June 20, 2017



Rating Assigned

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

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 11.50 crore bank facilities of Sri Jagannadha Surya Lakshmi Rice Mill. The outlook is '**Stable**'.

Sri Jagannadha Surya Lakshmi Rice Mill (Sri Jagannadha) is engaged in the processing of paddy into rice, rice bran, broken rice and husk. The firm was established by Mr. P Jaganaddha Raju and family.

Key Rating Drivers

Strengths

- Experienced management**

The promoters, Mr Jagannadha Raju, Mr Arun Kumar Raju, Mr Rama Koti Raju and others have more than a decades experience in the rice milling industry.

- Proximity to raw material**

The manufacturing facility is located at Palakol, Andhra Pradesh, one of the major rice producing areas in southern India. The firm procures paddy from local farmers and agents.

- Moderate financial risk profile**

The financial risk profile of the group is moderate marked by gearing of 2.51 times as on 3 March, 2016 as compared to 3.80 times as on 31 March, 2015. The net worth is moderate at Rs.9.44 crore as on 31 March, 2016. The group has moderate coverage indicators. The interest coverage ratio (ICR) stood at 1.17 times in FY2016. The total outside liability over tangible networth (TOL/TNW) stood at 2.53 times as on 31 March, 2016.

Weaknesses

- Uneven revenue**

The group reported operating income of Rs. 97.75 crore in FY2016-17 (Provisional) as against Rs. 55.42 crore in FY2015-16 and Rs.75.43 crore in FY2014-15. The uneven sales are on account of intense competition from organised as well as unorganised players. Further, sales also depend on climatic conditions, pricing and varieties of rice sold.

- Agro climatic risks**

Paddy, the main raw material is a seasonal crop and production of the same is dependent on the monsoon. Thus, inadequate rainfall may affect the availability of paddy in adverse weather conditions.

- Working capital intensive nature of business**

The nature of operations of the group are working capital intensive evident from the working capital

cycle of 189 days mainly on account of inventory of 134 days for FY2015-16. The working capital cycle stood at 190 days with inventory of 116 days during FY2014-15.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of BRM, Sri Satyalakshmi Rice Mill (SSRM) and Sri Jagannadha Surya Lakshmi Rice Mill (SJSLRM). The consolidation is in view of the common ownership, similarity in the lines of business and operational linkages within the three firms.

Outlook: Stable

SMERA believes that Sri Jagannadha will maintain a stable outlook owing to its experienced management. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profitability margin. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the financial risk profile.

About the Group

Sri Jagannadha Surya Lakshmi Rice Mill (Sri Jagannadha), Balaji Rice Mill (BRM) and Sri Satyalakshmi Rice Mill (SSRM) are engaged in the milling and processing of paddy into non-basmati rice.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the firm registered profit after tax (PAT) of Rs.0.35 crore on operating income of Rs.97.75 crore as compared to PAT of Rs.0.21 crore on operating income of Rs.55.42 crore for FY2015-16. On standalone basis, SJSLRM registered PAT of Rs.0.10 crore on operating income of Rs.35.67 crore for FY2016-17 (Provisional) compared to PAT of Rs.0.09 crore on operating income of Rs.21.68 crore for FY2015-16.

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

CRISIL, vide release dated December 28, 2016 has 'suspended its ratings on account of non-cooperation by SJSLRM with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, SJSLRM is yet to provide adequate information to enable CRISIL to assess SJSLRM's ability to service its debt'.

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4+

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ABOUT SMERA

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