

Press Release

Balaji Rice Mill (ANDHRA PRADESH)

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

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**) on the Rs. 11.50 Crore bank facilities of BALAJI 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 1983, 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 (SJRM) and Sri Satyalakshmi Rice Mill (SSRM) established in 1981 and 1984, respectively. Both these rice mills are based out of Palakollu with milling capacity of 6 TPH each.

Analytical Approach

Acuité 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 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 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. Acuité believes that the promoters' extensive experience in rice industry would aid the business risk profile of the group over the medium term.

- **Moderate working capital operations**

The group's operations are moderate with Gross Current Asset (GCA) of about 122 days as on March, 2019 (Prov) against 118 days as on March, 2018. 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, 2019 (Prov) are moderate at 58 days, and oscillate around 60-80 for the past three years ending March 31, 2019. Its bank lines are moderately utilised at about 66 per cent over six months through July, 2019. 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 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. Networth of the group stood at Rs. 9.67 Cr in FY2019 (Prov) against Rs. 9.57 cr in FY2018. 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 modest 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. There is no tax on paddy and rice. Availability of paddy and profitability are susceptible to the monsoon, competition, minimum support price of paddy and rice controlled by Government among others. 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 stretched marked by modest accruals at Rs. 0.27 Cr though no repayment obligations. Its accruals are expected at similar levels over the medium term. GCA days are moderately high at 122 days in FY 2019; further, seasonal operations lead to moderate utilisation of its bank limits at an average of 66 per cent over six months ended July 2019. However, current ratio of the group deteriorated marginally from 2.05 times in FY2018 to 1.76 times in FY2019 (Prov). Acuité 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

Acuité 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 increase in its revenues while improving its profitability. 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
07-Dec-2018	Cash Credit	Long Term	7.00	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.50	ACUITE A4+ (Reaffirmed)
06-Sep-2018	Cash Credit	Long Term	7.00	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	4.50	ACUITE A4+ (Indicative)
27-Jun-2017	Cash Credit	Long Term	7.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	4.50	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	7.00	ACUITE BB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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