

Press Release

05 July, 2017

SLN Agro Industries

Rating Assigned



Total Bank Facilities Rated *	Rs.12.00 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable (Rating Assigned)

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of **'SMERA BB' (read as SMERA double B)** on the Rs.12.00 crore bank facilities of SLN Agro Industries. The outlook is **'Stable'**.

SLN Agro Industries (SLN Agro), a partnership firm established in 2009 by Mr. C Nagesh and Mrs. C Geetha is engaged in the processing of non-basmati rice at Raichur (Karnataka). The installed capacity stands at 8 tons per hour. The firm sells rice under the brand names 'Thudi Rice', 'Rose Rice', 'Navya Gold Rice' to name a few.

Key Rating Drivers

Strengths

Experienced management

The partners, Mr. C Nagesh and Mrs. C Geetha have more than two decades of experience in rice processing. Before establishing, SLN Agro, the partners were engaged in rice milling through another of their companies, Lakshmi Narasimha Industries, which had been in operation since 1996.

Steady Revenue Growth

The operating income has shown steady growth with revenue of Rs.51.07 crore in FY2016 from Rs.23.64 crore in FY2014 thereby registering a cumulative annual growth rate (CAGR) of 46.98 per cent during the two year period. Also, the firm achieved revenue of Rs 51.50 crore in FY2017 (Provisional). The steady growth in revenue is on account of increase in customer base in the markets of Karnataka, Tamil Nadu and Kerala. Currently the firm has ~ 100 customers spread across Karnataka, Tamil Nadu and Kerala.

Efficient working capital management

The prudent working capital management is marked by comfortable Gross Current Asset Days of 81 in FY2016 as against 74 days in FY2015. The GCA days are evident from the holding period and debtor's period of 60 days and 19 days respectively in FY2016. The firm thus relies on internal accruals to fund its working capital as evident from the low bank limit utilisation of ~ 50 per cent in the last six months ending March, 2017

Moderate Financial Risk profile

The average financial risk profile is marked by moderate net worth base of Rs 7.81 crore in FY2016, debt protection metrics with interest coverage ratio and the debt service coverage ratio of 2.62 times and 1.12

times respectively in FY2016. The gearing stood moderate at 1.32 times in FY2016.

Weaknesses

Susceptibility to margins due to fluctuations in raw material prices

The business risk profile is susceptibility to margins due to fluctuations in paddy prices as evident from the volatile operating margins. The operating profit margin has been moderate and stood at 5.19 per cent in FY 2016 as against 10.55 per cent in FY 2014. The fall in the operating margin is mainly due to an increase in the paddy prices.

Agro climatic risks

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

Competitive and fragmented nature of rice milling business

Rice milling is a highly competitive industry due to low entry barriers which results in intense competition from both the organised as well as unorganised players in the industry. Moreover, the firm also faces competition from other rice mills in the vicinity.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of SLN Agro.

Outlook: Stable

SMERA believes that SLN Agro will maintain a stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues while achieving improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving projected revenues and profitability or if the firm registers deterioration in financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2016, SLN Agro reported Profit after Tax (PAT) of Rs.0.43 crore on total operating income of Rs.51.07 crore as compared with PAT of Rs.0.36 crore on total operating income of Rs.46.08 crore in FY2015.

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

None

Any other information

None

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)

Name of Facilities	2017				2016		2015		2014	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	03 July 2017	12.00	SMERA 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	12.00	SMERA BB/Stable (Assigned)

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ABOUT SMERA

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