

Press Release

SLN Agro Industries

September 20, 2018

Rating Reaffirmed



| | |
|-------------------------------------|----------------------------------|
| Total Bank Facilities Rated* | Rs. 12.00 Cr. |
| Long Term Rating | ACUITE BB/Stable (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has re-affirmed long term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 12.00 crore bank facilities of SLN Agro Industries (SLN Agro). The outlook is '**Stable**'.

Established in 2009, SLN Agro Industries (SLN Agro) is a Raichur (Karnataka) based partnership firm promoted by Mr. C Nagesh and Mrs. C Geetha. The firm is engaged in the processing of non-basmati rice with an installed capacity of 8 tons per hour.

Analytical Approach:

Acuite has taken a standalone view of the business and financial risk profile of SLN Agro to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management:

The partners have more than two decades of experience in the rice processing industry. Before establishing SLN Agro, the partners were engaged in rice milling through Lakshmi Narasimha Industries which has been in operation since 1996.

Proximity to raw material sources:

Raichur is known as the 'Rice Bowl' of India with 438,045 hectares of land used for the cultivation of paddy with nearly 80 rice mills. The firm procures 90 percent of paddy from the local farmers of Raichur. The balance paddy is procured from Maharashtra, Bihar and West Bengal depending on supply and demand pattern in a particular year. This proximity to raw material helps the firm to reduce the overall average annual carrying costs and raw material handling charges.

Improvement in margins:

The profitability margins have improved during the last two financial years. The operating margins improved to 7.78 percent in FY2018 (Provisional) as against 7.60 percent in FY2017 and 5.19 percent in FY2016. The reason for improvement in margins is because of bulk procurement of paddy at a lower cost. The net profit margins have also improved to 2.52 percent in FY2018 (Provisional) as against 2.45 percent in FY2017 and 0.80 percent in FY2016.

Weaknesses

Modest scale of operations:

SLN Agro's revenue stood modest at Rs.47.73 crore in FY2018 (Provisional) against Rs.48.83 crore in FY2017. Currently the firm has ~100 customer base spread across Karnataka, Tamil Nadu and Kerala.

Moderate financial risk profile:

The financial risk profile is moderate marked by modest net worth of Rs.9.72 crore as on 31 March, 2018 (Provisional) as against Rs.7.93 crore in the previous year. The gearing (debt-to-equity) stood at 1.26 times as on 31 March, 2018 (Provisional) as compare to 1.26 times in the previous year. The total debt of Rs.12.22 crore as on 31 March, 2018 (Provisional) consists of working capital borrowings of Rs.8.82 crore and unsecured loan from partners of Rs.3.40 crore. The debt protection metrics is comfortable marked by interest coverage ratio (ICR) of 3.26 times as on 31 March, 2018 (Provisional) as compare to 3.42 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.16 times as on 31 March, 2018 (Provisional).

Working capital intensive operations:

The operations are working capital intensive in nature marked by Gross Current Assets (GCA) of 126 days as on 31 March, 2018 (Provisional) as compare to 89 days in the previous year. The rise in GCA days is on account of increase in the inventory days to 97 as on 31 March, 2018 (Provisional) as compare to 79 days in the previous year.

Outlook: Stable

Acuite believes that SLN Agro will maintain a 'Stable' outlook and continue to benefit over the medium term from its management's experience. The outlook may be revised to 'Positive' in case of substantial and sustained increase in revenue and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue and profitability margins, or significant deterioration in its capital structure due to stretch in working capital cycle. Large debt-funded capital expenditure undertaken by the company may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 47.73 | 48.85 | 51.07 |
| EBITDA | Rs. Cr. | 3.71 | 3.71 | 2.65 |
| PAT | Rs. Cr. | 1.20 | 1.20 | 0.41 |
| EBITDA Margin | (%) | 7.78 | 7.60 | 5.19 |
| PAT Margin | (%) | 2.52 | 2.45 | 0.80 |
| ROCE | (%) | 14.77 | 16.17 | 9.14 |
| Total Debt/Tangible Net Worth | Times | 1.26 | 1.26 | 1.32 |
| PBDIT/Interest | Times | 3.26 | 3.42 | 2.62 |
| Total Debt/PBDIT | Times | 3.28 | 2.61 | 3.89 |
| Gross Current Assets (Days) | Days | 126 | 89 | 81 |

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

None

Any other information

None

Applicable Criteria

- 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>

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 |
|------------|---------------------------------|-----------|------------------|-----------------------------|
| 5-Jul-2017 | Cash Credit | Long Term | 12.00 | ACUITE BB/Stable (Assigned) |
| 5-Jul-2018 | Cash Credit | Long Term | 12.00 | ACUITE BB (Indicative) |

*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 | 12.00 | ACUITE BB/Stable (Reaffirmed) |

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About Acuite Ratings & Research:

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