

Press Release

SLN Agro Industries

September 19, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs. 12.00 crore bank facilities of SLN Agro Industries. 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

Acuité has considered the standalone business and financial risk profiles of the SLN Agro for arriving 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. The firm procures 90 per cent 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.

- **Moderate financial risk profile**

The firm has average financial risk profile, which is marked by moderate networth, gearing and debt protection metrics. Networth stood at Rs.9.64 crore against total debt of Rs.12.30 crore as on 31 March, 2019 (Provisional). Gearing stood at 1.28 times as on 31 March, 2019 (Provisional) as against 1.26 times as on 31 March, 2018. TOL/TNW is moderate at 1.29 times as on 31 March, 2019 (Provisional) as against 1.35 times as on 31 March, 2018. Debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratio (DSCR) are moderate at 2.89 times and 2.49 times, respectively, in FY2019 (Provisional). Acuité believes that the financial risk profile of the firm will continue to remain average in the absence of major debt funded capital expenditure.

Weaknesses

- **Modest scale of operations**

SLN Agro's revenue stood modest at Rs.43.09 crore in FY2019 (Provisional) against Rs.47.73 crore in FY2018 and Rs.48.85 crore in FY2017. The revenues have declined in the last two years. However, the decline in revenue is supported by improvement in operating margins. Operating margins stood at 8.37 per cent in FY2019 (Provisional) against 7.78 per cent in FY2018 and 7.60 per cent in FY2017.

- **Working capital intensive nature of operations**

The working capital operations of the firm are intensive in nature marked by Gross Current Assets (GCA) of 144 days in FY2019 (Provisional) as compared to 126 days in FY2018 and 89 days in FY2017. The rise in GCA days is mainly on account of increase in the inventory levels.

- **Profitability susceptible to highly competitive and fragmented nature of rice milling industry and agro climatic risks**

SLN Agro operates in the rice processing industry, which has low entry barriers leading to intense competition from both the organised as well as unorganised players. This limits the bargaining power of players in the industry, thereby affecting profitability.

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

Outlook: Stable

Acuité believes the outlook on the firm will remain 'Stable' over the medium term on account of the promoters' extensive experience and established presence in the industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability, while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

Liquidity Position

The liquidity of SLN Agro is adequate marked by net cash accruals in the range of Rs.1.80 crore to Rs.2.10 crore over the past three years against no repayment obligations. Liquidity is enhanced due to unsecured loans received from the partner and their relatives. The working capital operations of the firm are moderate as evident by GCA days of 144 in FY2019 (Provisional). The working capital limits in the firm remained utilised on an average at 80 per cent during the last year. The firm maintains unencumbered cash and bank balances of Rs.0.32 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.92 times as on March 31, 2019 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	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/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>

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
20-Sep-2018	Cash Credit	Long Term	12.00	ACUITE BB / Stable (Reaffirmed)
05-Jul-2018	Cash Credit	Long Term	12.00	ACUITE BB *Issuer not co-operating
05-Jul-2017	Cash Credit	Long Term	12.00	ACUITE 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	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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