

Press Release

Shree Lakshmi Narasimha Agro Foods

July 22, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (read as SMERA B plus) on the Rs. 10.00 crore bank facilities of Shree Lakshmi Narasimha Agro Foods. The outlook is '**Stable**'.

Shree Lakshmi Narasimha Agro Foods (SLNAF) is a Raichur-based partnership firm established in 2013 by Mr. M. Raghavendra, Mr. M. Srinivas, Ms. M. Poornima and Ms. M. Rajeshwari. The firm commenced operations in November 2015 in the milling of rice. The by-products are rice bran, husk among others. The firm procures paddy from local farmers in Raichur, Karnataka and supplies to dealers in Karnataka and Tamil Nadu.

Key Rating Drivers

Strengths

- **Experienced management**

The partners, Mr. M. Raghavendra and Mr. M. Srinivas collectively possess more than two decades of experience in the rice milling business.

- **Proximity to raw material source**

SLNAF has a manufacturing unit at Raichur, Karnataka with installed capacity of 4 metric tonnes of paddy per hour. Raichur is a major rice producing region and enables easy access to raw material - i.e. paddy.

Weaknesses

- **Small scale of operations**

The firm reported operating income of Rs.3.67 crore for FY2015-16 due to limited track record of operations. However, the firm reported revenue of Rs.23.07 crore (Provisional) in FY2017 on account of higher capacity utilisation.

- **Average financial risk profile**

The financial risk profile of the firm is average marked by low networth of Rs.2.84 crore (Provisional) as on 31 March, 2017 as against Rs.2.68 crore in the previous year. The gearing stood at 2.77 times as on 31st March, 2017 (Provisional) as against 2.85 times in the previous year. The Interest coverage ratio stood at 1.98 times for FY2017 (Provisional) as against 1.78 times in FY2016. The total Liabilities to tangible networth (TOL/TNW) stood at 3.32 times (Provisional) as on 31 March, 2017 compared to 3.68 times in the previous year. The Net cash accruals/Total Debt (NCA/TD) stood at 0.11 times in FY2017 (Provisional) as against 0.05 times in FY2016. Going forward, SMERA expects the firm to maintain its financial risk profile in the absence of major debt funded capex.

- **Working capital intensive operations**

The operations are working capital intensive evident from the high gross current asset days of 106 for FY2017 (Provisional) as against 271 days in FY2016. The procurement of raw material (paddy) is

seasonal i.e. during the month of November, December, January and March leading to high inventory days which stood at 73 for FY2017 and 228 for FY2016. Further, the average cash credit limit utilisation has been 90 percent during the last six months ended 31 May, 2017.

• Agro climatic risks

Paddy, the main raw material required for rice milling 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.

• 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.

• Partnership based constitution

SLNAF is a partnership firm and hence exposed to capital withdrawal risk.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook for SLNAF will remain stable over the medium term on account of the management's extensive experience in the rice milling business. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue and net cash accruals while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity profile or financial risk profile due to larger than expected debt funded capex.

About the Rated Entity - Key Financials

For FY2016-17, SLNAF reported net profit of Rs. 0.10 crore (Provisional) on operating income of Rs. 23.07 crore (Provisional) as against net loss of Rs.0.54 crore on operating income of Rs.3.67 crore. The networth stood at Rs.2.84 crore (Provisional) as on 31 March, 2017 as against Rs.2.68 crore in the previous year.

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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the	Date of	Coupon	Maturity	Size of the Issue	Ratings/Outlook
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Facilities	Issuance	Rate	Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.78	SMERA B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.22	SMERA B+ / Stable

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ABOUT SMERA

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