

Press Release

Shree Lakshmi Narasimha Agro Foods

October 05, 2018

Rating Reaffirmed and Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 9.68 crore bank facilities of Shree Lakshmi Narasimha Agro Foods (SLNAF). The outlook is '**Stable**'. Further, Acuite has assigned long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 0.32 crore bank facilities of Shree Lakshmi Narasimha Agro Foods. The outlook is '**Stable**'.

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 rice milling. 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SLNAF to arrive at the rating.

Key Rating Drivers:

Strengths

- **Experienced management**

The partners 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

- **Average financial risk profile**

The financial risk profile of the firm is average marked by low net worth of Rs.2.23 crore as on 31 March, 2018 as against Rs.3.30 crore in the previous year. The gearing stood at 4.14 times as on 31 March, 2018 as against 2.38 times in the previous year. The interest coverage ratio (ICR) stood at 2.20 times in FY2018 as against 2.63 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 5.12 times as on 31 March, 2018 compared to 2.71 times in the previous year. The net cash accruals/total debt (NCA/TD) stood at 0.09 times in FY2018 as against 0.18 times in FY2017. Going forward, Acuite 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 (GCA) days of 148 in FY2018 as against 110 days in FY2017. 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 108 for FY2018 and 86 for FY2017. Further, the average cash credit limit utilisation has been 84.91 percent during the last six months ended 31 August, 2018.

- **Decline in revenues and agro climatic risks**

The revenues of the firm declined in FY2018 to Rs. 20.86 crore from Rs. 23.07 crore in FY2017 mainly on account of insufficient availability of paddy. Paddy, the main raw material required for rice milling is a seasonal crop and production of the same is highly dependent on 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 is exposed to capital withdrawal risk.

Outlook: Stable

Acuite 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

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 20.86 | 23.07 | 3.67 |
| EBITDA | Rs. Cr. | 1.75 | 2.31 | 0.37 |
| PAT | Rs. Cr. | 0.17 | 0.72 | -0.54 |
| EBITDA Margin | (%) | 8.37 | 10.03 | 10.20 |
| PAT Margin | (%) | 0.84 | 3.12 | -14.78 |
| ROCE | (%) | 9.43 | 15.10 | -6.21 |
| Total Debt/Tangible Net Worth | Times | 4.14 | 2.53 | 2.85 |
| PBDIT/Interest | Times | 2.20 | 2.63 | 1.78 |
| Total Debt/PBDIT | Times | 5.26 | 3.37 | 19.38 |
| Gross Current Assets (Days) | Days | 148 | 109 | 651 |

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/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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 |
|-------------|---------------------------------|-----------|------------------|-------------------------------|
| 22-Jul-2017 | Cash Credit | Long Term | 6.00 | ACUITE B+ / Stable (Assigned) |
| | Term Loan | Long Term | 2.78 | ACUITE B+ / Stable (Assigned) |
| | Proposed Long Term Loan | Long Term | 1.22 | ACUITE B+ / 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 | 6.00 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.37 | ACUITE B+ / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.32 | ACUITE B+ / Stable (Assigned) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 1.31 | ACUITE B+ / Stable (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in Aishwarya Phalke Analyst - Rating Operations Tel: 022 49294054 aishwarya.phalke@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.