

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

Acuité 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, Acuité 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

Acuité 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, Acuité 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

Acuité 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)

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About Acuité Ratings & Research:

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