

Press Release

Shree Lakshmi Narasimha Agro Foods

October 22, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 10.00 crore bank facilities of Shree Lakshmi Narasimha Agro Foods (SLNAF). 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 its 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 the SLNAF for arriving 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 four 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 firm has moderate financial risk profile, which is marked by low networth, high gearing and moderate debt protection metrics. Networth stood at Rs. 2.48 crore against total debt of Rs. 9.16 crore as on 31 March 2019. Gearing stood at 3.69 times as on 31 March 2019 as against 4.14 times as on 31 March 2018. TOL/TNW is high at 3.95 times as on 31 March 2019 as against 5.12 times as on 31 March 2018. Debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratio (DSCR) are moderate at 2.06 times and 1.27 times, respectively, in FY2019.

Acuité believes that improvement in operating margins will be crucial for the firm to improve its financial risk profile.

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

SLNAF 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.

Rating Sensitivities

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.
- Improvement in the scale of operations and profitability margins over the near to medium term.

Material Covenants

None

Liquidity Position: Adequate

The liquidity of SLNAF is adequate marked by net cash accruals in the range of Rs. 0.70 crore to Rs.1.40 crore over the past three years against repayment obligations of Rs. 0.40 to Rs. 0.50 crores approximately. Liquidity is enhanced due to unsecured loans received from the partner and their relatives. The working capital operations of the firm are moderately intensive as evident by GCA days of 114 in FY2019. The working capital limits in the firm remained utilised at around 70 – 80 per cent during 2018-19. The firm maintains unencumbered cash and bank balances of Rs. 0.04 crore as on March 31, 2019. The current ratio stood at 1.08 times as on March 31, 2019.

Outlook: Stable

Acuité believes that 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 further elongation of the working capital cycle; thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	25.47	20.86	23.07
EBITDA	Rs. Cr.	1.70	1.75	2.31
PAT	Rs. Cr.	0.20	0.17	0.72
EBITDA Margin	(%)	6.66	8.37	10.03
PAT Margin	(%)	0.78	0.84	3.12
ROCE	(%)	9.67	9.43	15.10
Total Debt/Tangible Net Worth	Times	3.69	4.14	2.53
PBDIT/Interest	Times	2.06	2.20	2.63
Total Debt/PBDIT	Times	5.35	5.26	3.37
Gross Current Assets (Days)	Days	114	148	109

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
05-Oct-2018	Cash Credit	Long Term	6.00	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	2.37	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	0.32	ACUITE B+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	1.31	ACUITE B+ / Stable (Reaffirmed)
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 Loan	Not Applicable	Not Applicable	Not Applicable	2.37	ACUITE B+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.32	ACUITE B+ / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.31	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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