

Press Release

Gudimetla Sundara Rami Reddy And Company

July 29, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) on the Rs. 25.00 crore bank facilities of Gudimetla Sundara Rami Reddy And Company. The outlook is '**Stable**'.

Gudimetla Sundara Rami Reddy & Co. (Gudimetla Sundara), established in 1985, is an Andhra Pradesh based partnership firm promoted by Mr. Gudimetla Rama Krishna and Mr. Gudimetla Sundara Rami Reddy. The firm is engaged in the processing of non-basmati boiled, parboiled and raw rice at West Godavari District, Andhra Pradesh and has installed capacity of 270 metric tonnes per day (MTPD). The firm mainly caters to traders in Andhra Pradesh, Telangana and Chattisgarh.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Gudimetla Sundara is engaged in rice milling for three decades and has established long term relations with customers and suppliers. Further, the promoters, Mr. Krishna and Mr. Reddy possess more than two decades of experience in the rice milling industry.

- **Healthy growth in revenue**

The firm reported significant increase in operating income registering Rs.120.45 crore (Provisional) in FY2017, Rs.109.24 crore in FY2016 and Rs.86.35 crore in FY2015 on account of increase in demand for rice.

- **Proximity to rice growing areas**

Gudimetla Sundara is located at West Godavari district, Andhra Pradesh and offers proximity to raw material - paddy, given that the area has ample production of rice.

Weaknesses

- **Working capital intensive operations**

Gudimetla Sundara has working capital intensive operations marked by gross current assets (GCA) of 137 days in FY2015-2016 as against 130 days in FY2014-15. The high GCA days emanates from the stretched inventory days of 89 for FY2015-16. The cash credit limit was fully utilised during the last six months ended 31st March, 2017. The net cash accruals/total debt (NCA/TD) stood at 0.01 times in FY2015-16. The company also has unencumbered cash and bank balance of Rs.0.05 crore as on 31 March, 2016.

- **Average financial risk profile**

The financial risk profile is average marked by tangible networth of Rs. 13.25 crore as on 31 March, 2016 against Rs. 12.39 crore in the previous year. The gearing stood at 2.18 times as on 31 March, 2016 as against 1.57 times in the previous year. However, SMERA expects the gearing to improve on account of infusion of capital and repayment of term loans. The interest coverage ratio (ICR) stood at

1.14 times in FY2016 as against 1.13 times in the previous year. The total liabilities to tangible networth (TOL/TNW) stood at 2.20 times as on 31 March, 2016 as against 1.62 times in the previous year.

• **Competitive and fragmented industry**

Rice milling is a highly competitive industry with low entry barriers resulting in intense competition from organised as well as unorganised players.

• **Agro climatic risks**

Paddy - the main raw material 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.

• **Partnership constitution**

The firm is exposed to risk of capital withdrawal considering its partnership constitution.

Analytical Approach

Standalone business and financial risk profile.

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook owing to its management's extensive experience in the rice milling business. The outlook may be revised to 'Positive' in case of sustained increase in revenues and accruals while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues, profitability or deterioration in the capital structure owing to higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported net profit of Rs.0.28 crore on operating income of Rs. 109.24 crore compared to net profit of Rs.0.19 crore on operating income of Rs.86.35 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 Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BB- / Stable

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