

## Press Release

Sri Parameswara Agro

July 27, 2018

Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 5.65 Cr.
<b>Long Term Rating</b>	ACUITE B- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) on the Rs. 5.65 crore bank facilities of Sri Parameswara Agro. The outlook is '**Stable**'.

Established in 2014, Sri Parameswara Agro (SPA) is a Mahbubnagar (Telangana) based partnership firm engaged in the maintenance of Poultry Layer Birds Farm and selling of eggs. This firm is managed by Mrs. B. Kavitha and Mrs. B. Sunitha as partners. The firm has the capacity to maintain around 1,50,000 layer birds.

### Key Rating Drivers

#### Strengths

- **Experienced management and steady improvement in revenues**

Sri Parameswara Agro's promoters and their family members have been in the poultry industry for nearly a decade. The promoter's family members are into the same line of business with operations in Shad Nagar and Ranga Reddy District under a different firm name. Operating income of the firm has improved steadily at a compound annual growth rate (CAGR) of about 12 percent over four years ending FY2018 at Rs.11.7 crore (Provisional). Acuite believes that with more urbanisation and increase in health consciousness of people is expected to support in improvement of business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile is marked by moderate gearing (debt-to-equity) and below-average debt protection metrics though underpinned by low net worth. Gearing is moderate at 1.64 times as on March 31, 2018 (Provisional), deteriorated from 1.52 times as on March 31, 2017. Its total outside liabilities to total net worth has improved to 1.68 times as on March 31, 2018 (Provisional) from 2.63 times as on March 31, 2017 due to decline in payables to clients. Debt protection metrics are moderate with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 1.43 times and 0.04 times respectively for FY2018 (Provisional). The net worth is low at Rs.4.77 crore as on 31 March, 2018 (Provisional) against Rs.4.73 crore in 31 March, 2017. As there is no significant capex envisaged over the medium term and with low profitability margins, the financial risk profile is expected to be at similar levels over the medium term.

#### Weaknesses

- **Working capital intensive operations**

The operations are highly working capital intensive as evident from high Gross Current Asset (GCA) days of 315 as on March 31, 2018 (Provisional) against 187 days in FY2017. The working capital is majorly in the form of inventory. The company maintains an average inventory of about six months of its cost of sales. The high inventory is to maintain adequate stock of feed to counter price variations. The company offers credit period of about 7 to 15 days to its customers. This resulted in high utilisation of its bank lines over six months through May 2018 with several instances of overdrawals during February to May 2018, though regularised within 30 days. Acuite believes that with the expected growth in revenues is about 10-15 percent over the medium term, the operations are expected to be working capital intensive and liquidity continues to be stretched.

#### • Exposure to intense competition and to risks inherent in the industry

There is intense competition from organised as well as unorganised players catering to regional demands. Furthermore, the poultry industry is driven by regional demand-and-supply factors because of transportation constraints and the perishable nature of the products. Low capital intensity and entry barriers facilitate the entry of players in the unorganised segment. Also, the industry is vulnerable to outbreaks of diseases, which could lead to a decline in sales volume and realisations of poultry players.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Sri Parameswara Agro to arrive at this rating.

#### Outlook: Stable

Acuite believes that Sri Parameswara Agro will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of financial risk profile and liquidity.

#### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	10.33	9.87	8.35
EBITDA	Rs. Cr.	0.89	0.93	0.65
PAT	Rs. Cr.	0.03	0.13	0.05
EBITDA Margin	(%)	8.62	9.44	7.84
PAT Margin	(%)	0.34	1.34	0.59
ROCE	(%)	6.41	11.32	8.27
Total Debt/Tangible Net Worth	Times	1.52	2.44	2.79
PBDIT/Interest	Times	1.80	2.40	5.92
Total Debt/PBDIT	Times	8.04	3.57	5.07
Gross Current Assets (Days)	Days	503	185	47

#### 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-20.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.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	5.65	ACUITE B- / Stable

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**About Acuité Ratings & Research:**

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