

Press Release

Sri Laxmi Venkatadri Agro Foods

September 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 7.00 crore
Long Term Rating	ACUITE B/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B** (read as **ACUITE B**) to the bank facilities of Sri Laxmi Venkatadri Agro Foods (SLVAF). The outlook is '**Stable**'.

Incorporated in 2008, SLVAF is a partnership firm engaged in de-linting of cotton seeds, cotton oil extraction and processing of bi-product of rough / de-oiled cake. Based in Raichur (Karnataka), SLVAF is promoted and managed by Mr. K. Narendra Babu. It has crushing unit (oil mill) and cotton de-linting plant with installed capacity of 200 tonnes per day (TPD) and 300 tonnes per day (TPD).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SLVAF to arrive at this rating.

Key Rating Drivers:

Strengths:

- **Partner's extensive experience**

The partners have a decade of experience in the cotton industry which has helped SLVAF build healthy relationship with its stakeholders, to ensure a steady raw material supply and large offtake. The promoters' industry experience has helped SLVAF register revenue of Rs.63.74 crore (Provisional) in FY18. SLVAF's partners also have experience in same line of business through other associate entities. Acuité believes that partners' extensive industry experience and its established relations with suppliers and customers would aid the business risk profile of the firm over the medium term.

- **Moderate working capital management; extended credit from associate entities for raw material procurement**

SLVAF's operations are moderately working capital intensive with Gross Current Assets (GCA) of about 96 days as on 31 March, 2018 on provisional basis. The GCA days are marked by moderate inventory and debtor days but partially assuaged by higher credit period extended by suppliers. SLVAF maintains an average inventory of around one month for smooth running of operations. It procures cotton seed from local cotton ginners against credit period of 60 days. It also procures from its associate entities like 'Sri Padmavathi Industries' which is into cotton ginning and 'Sri Laxmi Srinivasa Oil Mill' in case of unavailability in local market.

As on March, 2017, out of the total creditors of Rs.10.50 crore, about Rs.3.08 crore (29 percent of total creditors) is from associate entities. Hence, the creditor days would be comparatively higher as it gets extended payment terms from its associate entities of up to 90 days. However, prices vary in on-season (October to May) and off-season depending on demand/supply. The inventory is order backed. It receives payments against credit period of maximum 60 days from its customers. The moderate inventory and debtor days is partially assuaged by the extended credit period of 50-

60 days, from its suppliers. The bank lines of Rs.5.70 crore have remained fully utilised over the last six months ending June, 2018 being the peak procurement season. Acuité believes that the working capital cycle would remain moderate over the medium term supported by extended support from its associates.

Weaknesses:

- **Uneven revenue and EBITDA margins**

SLVAF's revenue has been volatile over the past three years ending March, 2018. Revenue dipped to Rs.56.71 crore in FY17 due to de-linting plant being non-operational for 4-5 months for repair and maintenance. Revenue stabilised and grew by 15 percent y-o-y in FY18. SLVAF expanded its de-linting plant capacity to 300TPD from 200TPD; the capex was incurred in FY16 and FY17. EBITDA margins though low, have remained stable over the last 2 years ending 31 March, 2018. In FY16, it dipped to 1.05 percent due to high cotton seeds prices and lower realisations. Acuité believes that revenue would continue to show modest growth over the medium term with EBITDA margins remaining stable.

- **Below-average financial risk profile**

SLVAF's financial risk profile is marked by weak capital structure and debt protection metrics. SLVAF's gearing was high at 4.09 times as on 31 March, 2018 on provisional basis. Gearing has remained high due to its modest net worth and high debt levels. Net worth is modest at Rs.1.78 crore (Provisional) as on 31 March, 2018 vis-à-vis Rs.1.46 crore as on 31 March, 2017 and high debt levels of Rs.7.29 crore (Provisional) as on 31 March, 2018 against Rs.9.42 crore as on 31 March, 2017. SLVAF's modest net cash accruals and high debt has led to net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.14 times and 2.14 times in FY18 (Provisional) vis-à-vis 0.11 times and 1.79 times in FY17, respectively. Acuité believes that the financial risk profile would remain below average over the medium term with high reliance on its bank lines to meet its working capital requirements and high bank line utilisation.

Outlook:

Acuité believes that SLVAF will maintain a 'Stable' outlook on the back of the management's extensive experience in the cotton industry. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margins while improving the capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	63.74	56.71	66.42
EBITDA	Rs. Cr.	2.07	1.93	0.70
PAT	Rs. Cr.	0.26	0.10	-0.86
EBITDA Margin	(%)	3.25	3.40	1.05
PAT Margin	(%)	0.41	0.18	-1.30
ROCE	(%)	13.96	12.57	1.19
Total Debt/Tangible Net Worth	Times	4.09	6.46	5.92
PBDIT/Interest	Times	2.14	1.79	1.01
Total Debt/PBDIT	Times	3.34	4.19	9.09
Gross Current Assets (Days)	Days	96	96	73

Status of non-cooperation with previous CRA:

Brickwork Ratings via its press release dated July 6, 2018 has migrated SLVAF's long-Term Issuer Rating to the non-cooperating category i.e 'BWR B+ (ISSUER NOT COOPERATING)' as the issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency.

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.70	ACUITE B/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.63	ACUITE B/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.67	ACUITE B/Stable (Assigned)

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About Acuité Ratings & Research:

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