

Press Release

Sri Srinivasa Rice Mill

D-U-N-S® Number: 67-548-5656

May 14, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 5.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs. 5.50 crore bank facilities of Sri Srinivasa Rice Mill (SSRM). The outlook is '**Stable**'.

Established in 2016, SSRM was promoted by Mr. Dasara Thimmappa. The proprietary firm is engaged in processing of paddy into rice at Ballari district in Karnataka. The entity is now managed entirely by the proprietor's son, Mr. Madhusudhan. The rice mill is built across 1.5 acres of land in Kanekal Road of Ballari district and processes paddy into rice at 4 tones per hour of raw and boiled rice. The rice is sold under brand names of DTP Gold, DTP Royal and DTP Brundha.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SSRM to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor, Mr. Dasara Thimmappa has an experience of more than three decades in the rice milling business. The day-to day operations are taken care by his son, Mr. Madhusudhan. Mr. D. Thimmappa had a running rice mill in one of the rural region of Karnataka under the same name as Sri Srinivasa Rice Mill. Since they wanted to foray into the urban area, they shut the previous rice mill to bring into operations this new rice mill in the year 2016. The extensive experience of proprietor has helped the entity in establishing longstanding relationships with customers and suppliers.

Weaknesses

- **Weak financial risk profile**

SSRM's financial risk profile is marked by high gearing (debt-to-equity), high total outside liabilities to tangible net worth and moderate debt protection metrics. The gearing is high at 5.16 times as on 31 March, 2018 as against 4.57 times as on 31 March, 2017. The total debt of Rs.8.23 crore consists of Rs.5.44 crore of working capital borrowings, Rs.2.51 crore of long term borrowings and Rs.0.28 crore of USL from Directors as on 31 March, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 6.53 times as on 31 March, 2018 as against 6.12 times as on 31 March, 2017. Its debt protection metrics are moderate as Interest Coverage Ratio (ICR) stood at 1.87 times in FY2018 as against 2.12 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.08 times as on 31 March, 2018 as against 0.10 times as on 31 March, 2017. Acuité believes that the financial risk profile continues to be at similar levels owing to modest accruals and net worth.

- **Moderate working capital management**

The firm has moderate working capital operations as evident from its Gross Current Assets (GCA) of 134 days as on March 31, 2018 as against 107 days as on March 31, 2017. The firm maintains inventory levels at 113 days, and offers credit of about less than a month to its clientele; resulted in receivable days of about 24 as on March 31, 2018 (21 days in FY2017). In the current year for new contracts, the

credit terms are in the range of 40-45 days. Working capital intensive operations lead to high utilisation of its working capital limits at about 97.66 percent over the past six months ended March 2019. Acuité believes that the operations continue to be working capital intensive over the medium term.

• Highly competitive and fragmented industry affected by agro climatic risks

The agro commodity (rice) industry is highly competitive with multiple players coupled with low entry barriers resulting into intense competition from both the organised as well as unorganised players. Paddy which is the main raw material required for rice is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of paddy in adverse weather conditions.

Liquidity Position:

SSRM's liquidity is stretched marked by high BLU, tightly matching accruals to obligations and short track record of operations in this entity. The net cash accruals of the firm stood at Rs.0.65 crore in FY2018; its cash accruals are estimated around Rs.0.70 crore against repayment obligations of about Rs.0.60 crore over the medium term. The current ratio of the firm also stood low at 1.00 times in FY2018. Moderate GCA and modest accruals and net worth lead to high utilisation of its bank lines at about 98 per cent in last six months ending March 2019. Its unencumbered cash and bank balance stood at Rs.0.30 crore as on 31March 2018. Acuité believes that with modest accruals and repayment obligations, the liquidity continues to be at similar levels over the medium term.

Outlook: Stable

Acuité believes that SSRM will maintain a 'Stable' outlook over the medium term owing to the partners' extensive experience in the same industry. The outlook may be revised to 'Positive' in case the firm registers substantial growth in revenues and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	22.22	20.76
EBITDA	Rs. Cr.	1.41	1.30
PAT	Rs. Cr.	0.13	0.07
EBITDA Margin	(%)	6.34	6.29
PAT Margin	(%)	0.57	0.36
ROCE	(%)	9.83	16.97
Total Debt/Tangible Net Worth	Times	5.16	4.57
PBDIT/Interest	Times	1.87	2.12
Total Debt/PBDIT	Times	5.85	5.11
Gross Current Assets (Days)	Days	135	107

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	5.50	ACUITE B / Stable

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About Acuité Ratings & Research:

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