

Press Release

Sowbhagyalakshmi Raw And Boiled Rice Mill

June 19, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 40.00 Cr. (Enhanced from Rs.25.00 Crs)
Long Term Rating	ACUITE BBB-/Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) to the Rs. 25. 00 crore and assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) to Rs.15.00 Crore bank facilities of SOWBHAGYALAKSHMI RAW AND BOILED RICE MILL (SRB). The outlook is '**Stable**'.

Sowbhagyalakshmi Raw and Boiled Rice Mill (SRB) established in the year 1988 is engaged in the business of milling, processing and marketing of non-basmati rice. SRB has been promoted by Mr V Gopal Naidu and his family members.

About Group:

SRB is part of 'Sowbhagya group' which include other firms namely : Sri Sowbhagya Lakshmi Paddy Boiling Industries (SLPB) and Sri Bhagavan Venkaiah Swamy Rice Mill (SBVS) established in year 1996 and 2001 respectively; both the firms are engaged in processing of paddy into rice and its by-products of broken rice, bran, and husk. All the units of these firms are located in and around Nellore, Andhra Pradesh. On a consolidated basis, the Sowbhagya Group has a milling capacity of around 490 tonnes per day (TPD). The group sells in domestic market under the brands of 'Amrutham', 'Sowbhagya', 'Sowbhagya lakshmi', 'Mahavishnu' and 'Venkaiah Swamy'.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of SRB, SBVS and SLPB (herewith referred to as Sowbhagya group or group) to arrive at the rating. The consolidation is on account of common promoters and same line of business. Extent of consolidation: Full

Key Rating Drivers

Strengths

Experienced management

The group is promoted by the partners - Mr V Gopal Naidu and his family members Mr. Vadlamudi Venkateswararao, Ms Vadlamudi Surekha, and Ms Vadlamudi Poornima; the key promoter Mr Gopal Naidu is in this business for over three decades. Extensive experience of promoters has helped in building healthy relationship with its suppliers and customers to ensure regular supply, and repeat business. It helped in improving the revenues of the group at a compound annual growth rate (CAGR) of about 10.80 percent from Rs.279.03 crore in FY2016 to Rs.379.65 crore in FY2019 (Provisional); growth in the revenues are owing to penetration into newer territories, capitalization of its brands 'Amrutham', 'Sowbhagya', 'Sowbhagya lakshmi', 'Mahavishnu' and 'Venkaiah Swamy' duly supported by bank lines. Acuite believes that the promoters' experience, vintage of operations and reputed clientele are expected to support in improvement of its business risk profile over the medium term.

Moderate financial risk profile:

The financial risk profile of the group is moderate marked by comfortable capital structure comprising of comfortable gearing (debt- equity) and total outside liabilities to total net worth (TOL/TNW) however constrained by moderate debt protection metrics. The group's gearing and TOL/TNW are comfortable at 1.62 and 1.64 times as on March 31, 2019 (Provisional) against 1.57 and 1.59 times in FY2018. Its net worth is moderate at Rs.43.81 crore as on March 31, 2019 (provisional) as against Rs.43.06 Crs in FY2018. However, low profitability margins lead to moderate debt protection metrics: with Interest Coverage Ratio (ICR) at 2.02 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.06 times as on March 31 2019 (Provisional). The group has reported cash accruals of about Rs.4.24 crores in FY2019. Acuite believes that the financial profile of the group is expected to be at similar levels over the medium term owing to moderate accretion to

reserves, low profitability margins and working capital intensive operations though partly supported by absence of significant debt-funded capex plans.

Weaknesses

Moderate working capital management:

The group's operations are moderate evident from Gross Current Assets (GCA) of about 110 days historically through FY2019 due to efficient collection of trade receivables at about 15 days. GCA majorly comprises of high inventory holding due to seasonality and stood at about 100 days. The group procures the paddy in the peak season and keeps it for ageing for value realisation. The group purchases paddy mainly against spot payment; low profitability and continuous procurement of paddy results in high utilisation of its bank lines at around 97 per cent in the past six months through March 2019 and operations continues to be working capital intensive over the medium term.

Low profitability:

The group's operating profit margin remained low at 3.40 percent in FY2019(Provisional) with a higher raw material to operating income (OI) ratio of 87% (due to non-integrated operations). The rice milling business remains working capital intensive in nature, with high requirement to stock paddy in season majorly on cash and carry business leading to a relatively higher procurement cost; also the profitability is partly susceptible to the volatile paddy costs and Government regulation of minimum support price (MSP) of paddy besides prone to monsoon and availability of paddy.

Risk of withdrawal associated with the partnership nature

The entities under the Sowbhagya group are partnership firms. Any substantial cash withdrawals by the partners are likely to have an adverse impact on the capital structure.

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.

Liquidity Position:

The liquidity profile of the group is adequate. The group has reported cash accruals of Rs.4.24 crore in FY2019 (Provisional) and Rs.1.64 Crs in FY2018. It is expected to generate cash accruals in the range of Rs.4.00-5.00 crore over the medium term, against which its repayment obligations are about Rs.0.50 crore which gives sufficient cushion for the incremental working capital requirements and the liquidity. The group has cash and bank balances of Rs.2.12 crore as on March 31, 2019 (provisional). Working capital utilisation is about 97 per cent on an average for the last six months through March 2019. The current ratio stood at 1.59 times for FY2019. Acuite believes that the liquidity profile continues to be adequate supported by accruals and moderate working capital management with quick turnaround of the working capital cycle.

Outlook: Stable

Acuite believes that group will maintain a 'Stable' outlook on the back of the management's extensive experience in the rice milling business and its established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenues while improving its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	379.65	360.49	320.69
EBITDA	Rs. Cr.	12.92	7.62	7.48
PAT	Rs. Cr.	3.41	0.68	0.61
EBITDA Margin	(%)	3.40	2.11	2.33
PAT Margin	(%)	0.90	0.19	0.19
ROCE	(%)	10.72	6.18	6.92
Total Debt/Tangible Net Worth	Times	1.62	1.57	1.54
PBDIT/Interest	Times	2.02	1.27	1.27
Total Debt/PBDIT	Times	5.50	8.87	8.51
Gross Current Assets (Days)	Days	104	105	113

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)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-June-2019	Cash Credit	Long Term	25.00	ACUITE BBB-/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	25.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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