

Press Release

Sifti Rice Mills

September 16, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.27.40 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.27.40 crore bank facilities of SIFTI RICE MILLS. The outlook is '**Stable**'.

Amritsar-based, Sifti Rice Mills (SRM) was established in 2000 as a partnership concern by Mr. Vinod Kumar and is engaged in milling and processing of basmati and non-basmati rice. The firm sells rice locally as well as under its own brand- 'Rich cook' and 'R.V'. SRM is being managed by Mr. Vinod Kumar, Mrs. Parveen Rani, Mr. Sanjeev Chada and Mrs. Kriti Chada. The firm has its rice mill set up in Kathania, Amritsar with an installed capacity of 18 MT per hour.

Analytical Approach

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

Key Rating Drivers

Strengths

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

SRM is promoted by Mr. Vinod Kumar, who has around two decades of experience in the aforementioned industry and being in the agriculture business for a considerable amount of time has helped them maintain good relations with its customers and suppliers and establish a presence in the northern part of the country. Further, experience of the partners has also helped the firm to increase its operating income, operating income grew at ~15 per cent in FY2019 over FY2018 and stood at Rs.72.08 crore. Acuite believes that SRM will continue to derive benefit from its experienced management over the medium term.

- **Proximity to raw material source**

The firm has a manufacturing unit at Chheharta, Amritsar (Punjab) with installed capacity of 12 metric tonnes of rice per hour. Punjab is a major rice producing region and enables easy access to raw material i.e. paddy.

Weaknesses

- **Significant exposure to traffic risks**

SRM has below average financial risk profile marked by low net worth, moderate debt protection metrics and high gearing. The net worth of the firm stood at Rs.8.35 crore as on 31 March, 2019 (Provisional) as against Rs.5.44 crore as on 31 March, 2018. The gearing level (debt-equity) stood at 2.69 times as on 31 March, 2019 (Provisional) as against 5.62 times as on 31 March, 2018. The total debt of Rs.22.49 crore as on 31 March, 2019 (Provisional) consists of long term debt of Rs.0.43 crore, USL of Rs.1.80 and working capital borrowings of Rs.20.26 crore. The average improvement in profitability levels has resulted in improved net cash accruals of Rs.1.59 crore in FY2019 (Provisional) leading to moderate debt protection measures. The interest coverage ratio (ICR) stood at 2.07 times in FY2019 (Provisional) as against 2.00 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.07 times in FY2019 (Provisional) and 0.05 times in FY2018. Debt to EBITDA stood at 7.33 times in FY2019 (Provisional) as against 10.24 times in FY2018.

• **Working capital intensive nature of operations**

Operations of SRM are working capital intensive marked by Gross Current Asset (GCA) of 145 days in FY2019 (Provisional) as compared to 204 days in FY2018. This is on account of debtors' collection period of 43 days in FY2019 (Provisional) as against 71 days in FY2018 and inventory holding period of 104 days in FY2019 (Provisional) as against 135 days in FY2018. However, current ratio of the firm stood moderate at 1.30 times as on 31 March, 2019 (Provisional). Acuite believes that the working capital operations of SRM will continue to remain intensive on account of high level of inventory holding period.

• **Moderate scale of operations and agro climatic risks**

SRM has moderate scale of operations marked by revenue of Rs.72.08 crore in FY2019 (Provisional) as against Rs.62.56 crore in the previous year. Further, paddy, the main raw material required 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 which will in turn impact the financial risk profile of the firm.

Liquidity Profile

The firm has adequate liquidity marked by average net cash accruals to its maturing debt obligations. SRM generated cash accruals of Rs.1.59 crore in FY2019 (Provisional) as against debt obligations of Rs.0.30 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.1.41 crore to Rs.2.18 crore during FY2020-22 against repayment obligations in the range of around Rs.0.30 crore and Rs.0.76 crore for the same period. The firm's working capital operations are intensive marked by gross current asset (GCA) days of 145 days in FY2019 (Provisional). The current ratio stood at 1.30 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of average cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that the outlook on SRM's facilities will remain 'Stable' over the medium term on account of experienced management. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue while improving profitability and effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	72.08	62.56	72.22
EBITDA	Rs. Cr.	3.00	2.91	3.92
PAT	Rs. Cr.	0.95	0.60	0.56
EBITDA Margin	(%)	4.16	4.65	5.43
PAT Margin	(%)	1.32	0.96	0.77
ROCE	(%)	7.29	6.34	11.05
Total Debt/Tangible Net Worth	Times	2.69	5.62	4.16
PBDIT/Interest	Times	2.07	2.00	1.33
Total Debt/PBDIT	Times	7.33	10.24	6.18
Gross Current Assets (Days)	Days	145	204	149

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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	20.00	ACUITE BB- / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.31	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.59	ACUITE BB- / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Assigned)

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