

Press Release

Sifti Rice Mills

January 21, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 27.04 crore bank facilities of Sifti Rice Mills (SRM). The outlook is '**Stable**'.

Further, Acuité has assigned the long term rating of **ACUITE BB-** (**read as ACUITE double B minus**) on the Rs. 0.36 crore bank facilities of Sifti Rice Mills. The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation reflects established track record of operations and experienced management. It also takes into account average financial risk profile and working capital intensive operations. SRM's operating income marginally declined to Rs. 71.77 Cr in FY2020 (Provisional) as against Rs 72.10 in FY2019. However, operating margins improved marginally from 4.03 per cent in FY2019 to 4.24 per cent in FY2020. The financial risk profile is average marked by moderate debt protections metrics and high leverage levels. Moreover, gross current assets (GCA) stood high at 170 days for FY2020 (Provisional).

About the firm

Sifti Rice Mills is a Punjab based partnership firm established in 2000 by Mr. Vinod Kumar. The firm is engaged in processing of basmati rice. It processes two types of basmati rice: Permal and Pusa. Main raw material for the business is paddy. Currently the firm is being managed by Mr. Vinod Kumar, Mrs. Parveen Rani, Mr. Sanjeev Chada and Mrs. Kriti Chada.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management & long track of operation**

The firm was established in 2000 reflecting a long track of operation of more than two decades in the rice industry. The firm is promoted by Mr. Vinod Kumar, Mrs. Parveen Rani, Mr. Sanjeev Chada and Mrs. Kriti Chada who have extensive experience in the rice industry. Even the senior management of the firm has long track of experience in the industry.

- Proximity to raw material source**

The firm has a manufacturing unit at Chheharta, Amritsar (Punjab) with installed capacity of 16 metric tonnes of rice per day. Punjab is a major rice producing region and enables easy access to raw material i.e. paddy. All the major suppliers of the firm are either in Punjab or neighboring states like Uttar Pradesh & Delhi

Weaknesses

- **Average financial risk profile**

The financial risk profile of the firm is average marked by average net worth, high gearing and moderate debt protection metrics.

The net worth of SRM is average at around Rs. 10.04 crore as on March 31, 2020 (Provisional) as against Rs. 8.35 crore as on March 31, 2019.

SRM is following an aggressive financial policy, the same is reflected through its gearing of 2.85 times and total outside liabilities to tangible net worth (TOL/TNW) level of 3.24 times as on March 31, 2020. The total debt of Rs. 28.64 crore as on 31st March 2020 consists of long term debt of Rs.0.97 crore, unsecured Loans of Rs.1.68 and the short-term borrowings of Rs. 26.00 crore

SRM has moderate debt-protection metrics marked by debt-service-coverage-ratio of 1.90 times as on 31st March, 2020 (Provisional) and interest coverage ratio of 1.90 times as on 31st March, 2020 (Provisional). Currently, SRM is undergoing capital expansion with a total project cost of ~Rs. 9 crore in order to increase the capacity of the plant, which is financed through internal accruals to the extent of Rs. 3 crore and term loan of Rs. 6 crore.

Acuité believes that the financial risk profile of SRM will remain average on account of moderate profitability and in absence of any further debt-funded capital expenditure.

- **Agro climatic risks**

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.

- **Working capital intensive nature of operations**

SRM has intensive working capital requirements as evident from gross current assets (GCA) of 170 days for FY2020 (Provisional) increased from 145 days in FY2019. This increase is majorly on account of increase in inventory days from 104 days in FY2019 to 126 days in FY2020 (Provisional). Debtors' days stood at 38 days in FY2020 (Provisional) as against 42 days in FY2019. Further, stretched creditors' days from 9 days in FY2019 to 20 days in FY2020 (Provisional) has partly funded the working capital requirements. Current ratio stood at 1.12 times in FY2020 (Provisional).

Liquidity position: Adequate

The firm has adequate liquidity profile marked by adequate net cash accruals to its maturing debt obligations. The firm has generated cash accruals of Rs. 1.49 crore for FY2020 (Provisional), while there as against maturing debt obligations of Rs 0.63 crore during the same period. The firm's working capital operations are intensive marked by gross current asset (GCA) days of 170 days in FY2020 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 1.18 crore as on 31 March, 2020 (Provisional). The fund-based working capital limits of SRM remains utilised at 93 per cent over the last 7 months till October, 2020. The current ratio stood at 1.12 times as on 31 March 2020 (Provisional). In addition this, SRM has availed the benefits of Covid-19 Regulatory Package announced by Reserve Bank of India (RBI). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against debt obligations over the medium term.

Outlook: Stable

Acuité believes that the outlook on SRM will remain 'Stable' over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	71.77	72.10
PAT	Rs. Cr.	0.97	0.96
PAT Margin	(%)	1.35	1.33

Total Debt/Tangible Net Worth	Times	2.85	2.69
PBDIT/Interest	Times	1.90	2.09

Status of non-cooperation with previous CRA (if applicable)

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
16 September 2019	Cash Credit	Long term	20.00	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long term	6.31	ACUITE BB-/ Stable (Assigned)
	Proposed bank facility	Long term	0.59	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)

***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	20.00	ACUITE BB-/ Stable (Reaffirmed)
Term loan – I	Not Available	Not Applicable	Not Available	6.00	ACUITE BB-/ Stable (Reaffirmed)
Term loan – II	25-09-2020	Not Applicable	31-06-2026	0.36	ACUITE BB-/ Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BB-/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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