

## Press Release Sifti Rice Mills

April 27, 2022



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.50	-	ACUITE A4+   Reaffirmed
Bank Loan Ratings	26.90	ACUITE BB-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	27.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite 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. 27.40 crore bank facilities of Sifti Rice Mills (SRM). 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. The financial risk profile is below average marked by moderate debt protections metrics and high leverage levels. Moreover, gross current assets (GCA) stood high at 296 days for FY 2021.

#### About the Company

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

Acuite 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**

#### **Below average financial risk profile**

The company has below average financial risk profile marked by low net worth, high gearing and moderate coverage indicators. The company's net worth stood at Rs. 10.95 Cr as on 31st March 2021 as against Rs. 10.04 Cr as on 31st March 2020. Gearing (Debt to Equity) deteriorated to 4.48 times in FY 2021 from 2.85 times in FY 2020 as a result of on boarding additional debt. The total debt of Rs. 49.03 Cr in FY 2021 consists of Rs. 9.61 Cr of long term loan, Rs. 1.75 Cr of Unsecured loan and Rs. 37.67 Cr of working capital borrowings. TOL/TNW has moderated to 5.78 times in FY 2021 from 3.24 times in FY 2020. NCA/TD stood at 0.05 times in FY 2021 and Interest Coverage Ratio stood at 1.91 times.

#### **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**

Company's operations are working capital intensive as evident by GCA days of 296 in FY 2021. The GCA days have stretched in FY 2021 due to stretch in debtor and inventory days. The company undertook capital expenditure last year wherein they have enhanced the capacity by establishing a new unit with capacity of 12 Tonne per day but the project went into cost overrun wherein the company had to finance around Rs. 12 Cr for the project as against the estimated Rs. 9.50 Cr. The cost overrun affected the working capital of the company wherein the company was not able to pay creditors on time and had to use additional short term lending specifically WHR facilities with IDBI Bank and Yes Bank and additional Rs. 5 Cr adhoc CC limit from PNB to fund the working capital. Debtors got stretched due to covid related complications and inventory was stuck up due to covid and capacity enhancement procedures. In the coming times company is expected to improve the working capital cycle but it will remain intensive in the coming days. As a result there average bank limit utilization remained at 93.01% for the period of April 2021 to January 2022.

### **Rating Sensitivities**

- Stabilization of the capacity enhancement undertaken.
- Elongation of working capital cycle.

### **Material covenants**

None.

### **Liquidity Position: Adequate**

The company has adequate liquidity position marked by its net cash accruals to its debt obligations. Going forward the company is expected to generate NCA of around Rs. 2.45 Cr and 4.57 Cr against CPLTD of Rs. 0.74 Cr and 1.09 Cr for FY 2022-23. Average Bank Limit utilization stood at 93.01% in the current year up till January 2022 and the company has the ability to raise WHR funding against inventory to fund working capital requirements if need arises. The current ratio for FY 2021 stood at 1.12 times and the company had cash and bank position of Rs. 2.56 Cr for FY 2021.

### **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.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	71.23	71.77
PAT	Rs. Cr.	0.65	0.97
PAT Margin	(%)	0.92	1.35
Total Debt/Tangible Net Worth	Times	4.48	2.85
PBDIT/Interest	Times	1.91	1.90

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

Brickwork vide its press release dated 22 February 2022, has mentioned the rating of SRM to "[BWR] C+/Stable/A4" Issuer Not Cooperating as on 22 February 2022.

## Any other information

None.

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Jan 2021	Cash Credit	Long Term	20.00	ACUITE BB-   Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE BB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.54	ACUITE BB-   Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BB-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Reaffirmed)
16 Sep 2019	Term Loan	Long Term	6.31	ACUITE BB-   Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BB-   Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	0.59	ACUITE BB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BB-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.36	ACUITE BB-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.00	ACUITE BB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

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