

Press Release
Sifti Rice Mills
May 05, 2023



Rating Reaffirmed and Upgraded

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

Rating Rationale

Acuite has upgraded the long term rating from '**ACUITE BB-**' (read as **ACUITE double B minus**) to '**ACUITE BB**' (read as **ACUITE double B**) and Reaffirmed 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 Upgrade

The rating upgrade considers the comfort drawn on long track record of operations, extensive experience of the partners, improvement in business risk profile and growth expected in near medium term. Coupled to that, the firm has adequate liquidity with low bank limit utilisation.

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 30 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.

Business risk profile - Improvement

SRM's operations improved as reflected by improvement in revenue from operations which stood at Rs 102.81 crore in FY2022 as against Rs 71.23 crore in FY 2021. Revenue improved by ~44 percent in FY 22. Furthermore, the firm has recorded revenue of Rs ~170 crore for FY 2023.

The operating profit margin of the firm witnessed moderation of 0.51% and stood at 5.93% in FY2022 as against 6.44% in FY2021. Furthermore, the net profit margin of the firm improved by 10 bps and stood at 1.02 percent in FY2022 as against 0.92 percent in FY2021.

Currently, the firm has orders in hand of ~Rs 2.83 crore. ROCE of the firm stood at 7.07% in FY2022.

Weaknesses

Financial risk profile- Below Average

SRM's financial risk profile is below average marked by low net worth of Rs. 10.84 crore as on 31 March 2022 as against Rs.10.95 crore as on 31 March, 2021. Moderation in networth is on account of withdrawals. Firm has aggressive leverage policy. The gearing (debt-equity) stood high at 3.73 times as on 31 March, 2022 as against 4.48 times as on 31 March, 2021. The total debt outstanding of the firm is Rs.40.44 crore as on 31 March, 2022 which consists of long term bank borrowings of Rs.8.18 crore and short term working capital limit of Rs. 28.35 crore with current maturities of long term debt of Rs 2.40 crore and loan from related parties amounting to Rs 1.51 crore.

The interest coverage ratio stood at 2.15 times for FY2022 as against 1.91 times for FY2021. The DSCR stood at 1.34 times for FY2022 as compared to 1.91 times for FY2021. The Net Cash Accruals to Total debt stood at 0.08 times as on FY2022. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 4.06 times in FY2022 as against 5.78 times for FY2021.

Working capital management- Intensive

Working capital operations of the company are improved yet intensive in nature as reflected by its gross current asset (GCA) days of 137 days as on March 31, 2022 as against 296 days as on March 31, 2021 which is on account of higher inventory and Debtors days. Inventory days improved and stood at 94 days as on March 31 FY2022 as against 234 days as on March 31 FY2021. Debtor days improved to 45 days as on March 31 FY2022 as against 57 days as on March 21 FY2021. The creditor days stood at 14 days as on March 31, FY2022 as against 85 days as on March 31, 2022. Utilization of fund based working capital limits remains at ~60% in last twelve months ended March 2023.

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.

Rating Sensitivities

Company's ability to improve Operating and Profitability Margin
Elongation of working capital cycle.

Material covenants

None

Liquidity Position

Adequate

Liquidity profile of the firm remained adequate marked by adequate net cash accruals against its maturing debt obligations. Firm generated cash accruals of Rs.3.32 Cr in FY2022 as against its maturing debt obligation of 1.74 Cr in the same period.

Utilization of fund based working capital limits remains at ~60% in last twelve months ended March 2023 providing additional cushion to meet contingencies. firm has unencumbered cash and bank balances of Rs. 0.25 crore as on March 31, 2022. The current ratio of the company stood at 1.19 times as on March 31, 2022 as against 1.08 times as on March 31, 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	102.81	71.23
PAT	Rs. Cr.	1.04	0.65
PAT Margin	(%)	1.02	0.92
Total Debt/Tangible Net Worth	Times	3.73	4.48
PBDIT/Interest	Times	2.15	1.91

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

Brickwork vide its press release dated 07 February 2023, has mentioned the rating of SRM to "[BWR] C/A4" Issuer Not Cooperating since 18 March 2020.

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Apr 2022	Term Loan	Long Term	6.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.36	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.54	ACUITE BB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BB- Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

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