

Press Release

Sooraj Agro Mills India Private Limited

April 11, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	27.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	5.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	32.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.32.00 Cr bank facilities of Sooraj Agro Mills (India) Private Limited (SAMIPL). The outlook is 'Stable'.

The rating assigned factors in the consistent increased revenues over the last 3 years ending FY2021, which are likely to improve further, favourable demand prospects. The rating continues to factor in the company's extensive experience in the rice milling industry, resulting in an established customer and supplier base. The rating also considers the location-specific advantage as the company's manufacturing unit is in a major rice producing belt of Palakkad, Kerala, providing regular and easy access to raw materials at lower transportation costs. These rating strengths are partially offset by its working capital intensive operations and susceptibility to volatility in raw material prices and any adverse change in government regulations.

About the Company

Established as a proprietorship firm in 1995, by Mr. Arumugan Surendran and later it was converted into a private limited company in 2007 in the name of Sooraj Agra Mills (India) Private Limited (SAMIPL). It is engaged in milling and processing of paddy and produces raw, broken and boiled rice. It has a milling facility located in Palakkad- Kerala. The company is having two manufacturing units with an installed capacity of 40 tons per day and 50 tons per day respectively. For captive power use company is planning to set up 500 KW Solar Power generation System with a project cost of Rs.2.51 Cr funded by debt of Rs.1.70 Cr and rest through promoter's funds. The operation of the company is managed by promoters Mr A. Surendran and his wife, Ms. M Sumandahasini.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SAMIPL to arrive at

the rating.

Key Rating Drivers

Strengths

Extensive industry experience of the promoters and favourable location of plant

The promoters have been working in the rice industry for three decades; their expertise helped establish a wide procurement network and build healthy relationship with customers. The manufacturing plant is located in Palakkad-Kerala which helped to take advantage of the potential demand in the cluster also get benefited with easy accessibility to a large customer base and readily available raw materials in the location. The demand prospects for rice, a staple food grain, remain favourable with India is the world's second largest producer and consumer of rice. Acuité believes that the SAMIPL will continue to benefit from its experienced management, long track of business operations and well established relationships with clients and suppliers over the medium term.

Average financial risk profile

The SAMIPL's financial risk profile is average, marked by leveraged capital structure and average debt protection metrics. The networth of the SAMIPL stood at Rs.11.14 Cr as on March 31, 2021 as against Rs.9.73 Cr as on March 31, 2020. The debt-equity ratio stood at 2.16 times as on March 31, 2021 as against 2.04 times as on March 31, 2020. TOL/TNW stood high at 3.06 times as on March 31, 2021 as against 2.04 times as on March 31, 2020. Debt protection metrics Interest Coverage Ratio (ICR) and NCA/TD stood at 1.95 times and 0.08 times for FY2021 as against 2.00 times and 0.08 times respectively for FY2020. Acuité believes that the financial profile of the SAMIPL is expected to be at similar levels over the medium term.

Weaknesses

Working capital intensive nature of operations

SAMIPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of 156-192 days during the last 3 years ended as on March 31, 2021. GCA majorly comprises of moderate inventory and high receivable. The receivable days stood high at 120 days for as on March 31, 2021 as against 109 days as on March 31, 2020. The inventory days stood at 69 days as on March 31, 2021 as against 63 days as on March 31, 2020. Its creditor days stood at 48 days as on March 31, 2021 as against and as on March 31, 2020, respectively. Its bank lines were highly utilized at around 99 per cent in the past 6 months through December 2021. Acuité expects the operations of the company to remain working capital intensive over the medium term.

Stagnant revenues and profitability over the past three years

The company's total operating income has remained stagnant in the range of Rs. 60-75 Cr over the past three years and the profit margins EBITDA and PAT are also muted at 6.20 to 6.90 percent and 1.50 to 1.80 percent respectively over the past three years ended with FY2021. Acuité believes that improvement in revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

Inherent risks in rice milling industry and highly fragmented industry

The availability of paddy is dependent on climatic conditions prevailing during the season. Hence, the firm is exposed to the risk of fluctuation in availability and prices of raw materials. Moreover, the rice industry is highly regulated as the minimum procurement price is fixed by the government. The firm faces stiff competition from other unorganised players in the absence of entry barriers, which limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of the financial risk profile
- Any further deterioration in working capital management, leading to deterioration in financial risk profile and liquidity

Material covenants

None

Liquidity position: Stretched

SAMIPL's Liquidity is stretched with tightly matching Net Cash Accruals to its repayment obligations. The Company has generated cash accruals of Rs.1.60 to 1.99 Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.1.50 Cr-2.00 Cr during the same period. The SAMIPL has generated cash accruals of Rs.2.40 to 3.60 Cr during the last three years through 2022-24, while its maturing debt obligations were in the range of Rs.2-3.90 Cr during the same period. The shortfall in FY2021 was met through sanction of Guaranteed Emergency Credit Line (GECL) of Rs.4.32 Cr. The average fund-based working capital utilization stood at 99 percent for the past 6 months ended December 2021. The SAMIPL's has maintained unencumbered cash and bank balances Rs.1.65 Cr and the current ratio stood at 1.34 times as on March 31, 2021. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of low cash accrual as against its repayments.

Outlook: Stable

Acuite believes that the SAMIPL will maintain a 'Stable' outlook on account 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 significant growth in its revenues while improving its profitability and maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or significant withdrawal of capital, leading to the deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	76.48	70.07
PAT	Rs. Cr.	1.41	1.07
PAT Margin	(%)	1.84	1.53
Total Debt/Tangible Net Worth	Times	2.16	2.04
PBDIT/Interest	Times	1.95	2.00

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

Not Applicable

Any other information

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>
- 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	3.30	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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