

October 22, 2024^(Revised)

Sri Ramalingeswara Modern Rice Mill: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|--------------------------------|
| Long-term Fund-based – Cash Credit | 81.00 | 81.00 | [ICRA]BB+ (Stable); reaffirmed |
| Short-term – Non-fund based – Bank Guarantee [^] | (10.00) | (10.00) | [ICRA]A4+; reaffirmed |
| Long-term – Unallocated | 2.00 | 2.00 | [ICRA]BB+ (Stable); reaffirmed |
| Total | 83.00 | 83.00 | |

Note: Amounts in Rs. Crore ; *Instrument details are provided in Annexure-I; ^ Bank Guarantee as sub-limit of Cash Credit limit

Rationale

The ratings continue to derive strength from the extensive experience of Sri Ramalingeswara Modern Rice Mill's (SRMRM) management, which has an extensive experience of more than three decades in the rice milling industry and the established brand name of Cow & Calf in Andhra Pradesh. The firm enjoys considerable location specific advantages due to its presence in a major rice growing area of Andhra Pradesh, which results in easy availability of paddy. The ratings also factor in favourable demand prospects of rice as India is the second largest producer and consumer of rice.

The ratings, however, remain constrained by the low profit margins inherent to the rice milling business. Moreover, the firm's liquidity has remained stretched, as reflected by high utilisation of its limits and moderately high working capital intensity. The firm's revenue growth has remained muted in the past three years and revenues are expected to remain flat in FY2025 as well, despite improved realisations. The firm's financial profile is moderate as reflected in Total Debt/OPBDITA of 7.3 times, interest coverage of 1.5 times and DSCR of 1.5 times in FY2024. Intense competition in the rice industry amid several small-scale players limits the pricing flexibility of industry participants. The firm remains exposed to high product concentration as raw rice accounts for most of the total sales along with high geographical concentration with Andhra Pradesh accounting for most of the firm's rice sales. Further, its operations are susceptible to raw material availability, the quality and pricing of paddy, which depend on climatic conditions and the Government's regulations. The ratings also consider the risks inherent to the partnership nature of the firm.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that SRMRM will continue to benefit from its extensive track record of operations and healthy demand prospects for rice, which would result in a steady revenue.

Key rating drivers and their description

Credit strengths

Established track record and brand presence of the firm – SRMRM was established as a partnership firm in 1982 by Mr. Krishna Reddy. He was involved with the rice milling industry for more than three decades. Over the years, SRMRM has been able to develop a strong brand (Cow & Calf), primarily in Andhra Pradesh, which has enabled it to achieve a steady increase in its scale of operations.

Presence in major rice growing area results in easy availability of paddy – The firm’s milling unit is in the East Godavari region of Andhra Pradesh, which is a major rice growing area, resulting in easy availability of paddy. It has a milling capacity of 18 metric tonnes per hour (MTPH) with healthy capacity utilisation over the past two years. The demand prospects for rice, a staple food grain, remain favourable as India is the world’s second largest producer and consumer of rice.

Credit challenges

Moderate financial risk profile – SRMRM’s financial risk profile has been moderate, characterised by muted revenue growth in the past three years, low margins inherent to the rice milling business and moderate debt metrics with a gearing of 1.2 times, DSCR of 1.5 times, an interest coverage of 1.5 times and Total Debt/ OPBDITA of 7.3 times as on March 31, 2024. Low margins and high inventory holding has also resulted in stretched liquidity profile. The firm’s financial profile is expected to remain moderate in the near term.

Intense competition in the rice industry amid high product and geographical concentration risks – The fragmented nature of the rice industry results in stiff competition, which limits the pricing flexibility of the industry participants. This keeps profitability at a modest level. Also, the firm remains exposed to high product concentration risk as it derived 79.7% of the total revenue from raw rice sales in FY2024. It is also exposed to high geographical concentration risk as most of its rice sales are in Andhra Pradesh.

Susceptibility to agro-climatic risks and changes in Government regulations – The rice milling industry is susceptible to agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. Fluctuations in supply, in turn, expose SRMRM to price volatility risks. Moreover, changes in Government regulations pertaining to the rice industry, such as export policy or minimum support Price (MSP) for paddy, can impact the industry dynamics. In June 2023, export of raw rice was banned by the Government of India while export duty of 20% was imposed on parboiled rice. In September 2024, ban on raw rice exports has been lifted with stipulation of minimum export price of \$490. Export duty on parboiled rice has been revised to 10%.

Risks related to partnership nature of the firm – SRMRM is exposed to the risks inherent to a partnership firm, including the capital withdrawal risk.

Liquidity position: Stretched

SRMRM’s liquidity position is stretched. The firm’s average working capital utilisation has been high at ~96% for 12 months ending in September 2024, leaving a negligible buffer in working capital limits. The firm’s retained cash flows are expected to be modest. It has repayment obligations of Rs.0.05-0.1 crore in the next 12 months. The firm’s ability to manage its working capital cycle and timely infusion of funds by the partners will be key determinants of its liquidity position. The firm’s liquidity would remain exposed to the risk of capital withdrawal, given the partnership nature of the firm.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the firm’s scale of operations and profitability, along with an improvement in SRMRM’s liquidity position and debt protection metrics on a sustained basis. A specific credit metric for ratings upgrade include OPBITDA/Interest of more than 2.8 times, on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a sharp decline in SRMRM’s revenues or profitability, impacting its financial profile on a sustained basis. Also, any large capital withdrawal or a significant increase in the working capital intensity, leading to a tightened liquidity position, can trigger a rating downgrade.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Rice Millers |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | The ratings are based on the standalone financial profile of the company. |

About the company

Sri Ramalingeswara Modern Rice Mill was established in 1982 and is engaged in the milling of paddy for processing raw and boiled rice. The rice mill is located at Penuguduru Village in the East Godavari district of Andhra Pradesh. The installed production capacity of the rice mill is 18 tonnes per hour. SRMRM is an ISO 9001:2015 certified firm. It sells all its products under the brand name, Cow & Calf.

Key financial indicators (audited)

| SRMRM | FY2023 | FY2024 |
|--|--------|--------|
| Operating income | 351.4 | 355.2 |
| PAT | 2.3 | 2.4 |
| OPBDIT/OI | 3.0% | 3.3% |
| PAT/OI | 0.8% | 0.9% |
| Total outside liabilities/Tangible net worth (times) | 1.3 | 1.2 |
| Total debt/OPBDIT (times) | 7.8 | 7.3 |
| Interest coverage (times) | 1.5 | 1.5 |

Source: Company, ICRA Research; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|--|------------------|-------------------------|--------------------|---|--------------------|------------------|--------------------|--------------|---------------------|
| | Type | Amount Rated (Rs Crore) | October 22,2024 | FY2024 | | FY2023 | | FY2022 | |
| | | | | Date | Rating | Date | Rating | Date | Rating |
| Fund-based – Cash Credit | Long-term | 81.00 | [ICRA]BB+ (Stable) | November 01,2023 | [ICRA]BB+ (Stable) | December 22,2022 | [ICRA]BB+ (Stable) | June 18,2021 | [ICRA]BBB- (Stable) |
| | | | | | | June 30,2022 | [ICRA]BB+ (Stable) | | |
| Non-fund based – Bank Guarantee [^] | Short-term | (10.00) | [ICRA]A4+ | November 01,2023 | [ICRA]A4+ | - | - | - | - |
| Unallocated | Long-term | 2.00 | [ICRA]BB+ (Stable) | November 01,2023 | [ICRA]BB+ (Stable) | December 22,2022 | [ICRA]BB+ (Stable) | June 18,2021 | [ICRA]BBB- (Stable) |
| | | | | | | June 30,2022 | [ICRA]BB+ (Stable) | | |

[^] Bank Guarantee as sub-limit of Cash Credit limit

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long-term Fund-based – Cash Credit | Simple |
| Short-term – non-fund based – Bank Guarantee | Very Simple |
| Long-term – Unallocated | Not Applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Long-term Fund-based – Cash Credit | NA | NA | NA | 81.00 | [ICRA]BB+ (Stable) |
| NA | Short-term – non-fund based – Bank Guarantee [^] | NA | NA | NA | (10.00) | [ICRA]A4+ |
| NA | Long-term – Unallocated | NA | NA | NA | 2.00 | [ICRA]BB+ (Stable) |

Source: Company; Amounts in Rs. Crore ^ Bank Guarantee as sub-limit of Cash Credit limit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Document dated October 22, 2024 has been corrected with revisions as detailed below:

- Outlook earlier captured with short term rating in the summary table has been removed.

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar Krishnamurthy

+91 44 4596 4318

ksrikumar@icraindia.com

Nithya Debbadi

+91 040-69396416

Nithya.Debbadi@icraindia.com

Vishal Balabhadruni

+91 040-6939 6417

vishal.balabhadruni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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