February 24, 2023

Aditya Rice Industries: 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	8.00	7.30	[ICRA]BB- (Stable); reaffirmed
Long-term Fund-based – Term loan	0.80	0.63	[ICRA]BB- (Stable); reaffirmed
Long-term – Unallocated Limits	4.20	5.07	[ICRA]BB- (Stable); reaffirmed
Total	**13.00**	**13.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation considers extensive experience of the promoters of Aditya Rice Industries (ARI) and the firm's established track record in the rice milling industry, which has supported a steady growth in its business and revenues. As per ICRA's estimates, the firm's revenue is likely to grow by 15% in FY2023, supported by an increase in volume of rice milled along with realisation. The firm's focus on customised rice milling (CRM) business will continue to support its business growth. The firm enjoys considerable location-specific advantages due to its presence in a major rice growing area of Telangana, which results in easy availability of paddy. The rating also considers favourable demand prospects of rice as India is the second largest producer and consumer of rice, globally.

However, the rating remains constrained by the firm's small scale of operations with revenues of Rs. 67.8 crore in FY2022 (as per audited financials) in a highly fragmented rice-milling industry, limiting its financial flexibility. ARI's moderate financial risk profile, characterised by thin margins and low cash accruals in the past as well as estimated, also impact the ratings. Additionally, the credit quality of the firm would remain exposed to agro-climatic risks, which can affect the availability of paddy in adverse weather conditions and thereby have a negative impact on ARI's revenues. Further, the ratings factor in the intense competition in the rice industry, risks associated with adverse Government regulations and risks associated with partnership nature of the business, including the risk of capital withdrawal, among others.

The Stable outlook on the [ICRA]BB- rating factors in the benefits arising from its established operational track record in the rice milling industry and the expected growth in demand for rice.

Key rating drivers and their description

Credit strengths

Significant experience of the firm in rice milling and trading business – The firm has an established presence in the rice milling industry with over two decades of experience, resulting in an established relationship with the customers.

Favourable demand prospects for rice – The demand prospects of the rice industry are likely to remain good as rice is a staple foodgrain and India is the world's second largest producer and consumer of rice.

Credit challenges

Small scale of operations and moderate financial risk profile – ARI's scale of operations remained small at Rs. 67.8 crore in FY2022 with an installed capacity of 57,600 MT of paddy per annum, limiting its financial flexibility. The firm's financial risk profile remains moderate on account of its thin margin and low accruals, which result in pressure on its debt coverage metrics, as reflected by an interest coverage of 2.0 times, DSCR of 1.2 and NCA/TD of -3% in FY2022.

Intense competition in industry – The fragmented nature of the rice milling industry, characterised by stiff competition amid presence of many players, limits the pricing flexibility of the industry participants, including ARI, and results in modest profitability.

Industry susceptible to agro-climatic risks and changes in the 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 expose ARI to price volatility risks. It is exposed to Government regulations and policies, affecting the paddy/rice prices and sales.

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

Liquidity position: Stretched

The firm's liquidity position is expected to remain stretched in the near term. While the firm does not have any major capex plans in the near term, it has term loan repayments of Rs. 0.37 crore in FY2024 and Rs. 0.16 crore in FY2025. Its working capital utilisation remained high during the last 12 months ending in December 2022 with nominal cushion available in case of emergency. ICRA expects the firm's liquidity to be supported by its partners in the form of unsecured loans.

Rating sensitivities

Positive factors – ICRA could upgrade ARI's rating if the firm demonstrates a substantial increase in its revenue and profitability, leading to an improvement in its liquidity and debt protection metrics on a sustained basis.

Negative factors – Pressure on ARI's ratings could arise if any decline in revenues, or any fall in margin or a stretch in the working capital cycle impacts the firm's liquidity position. Any unanticipated debt-funded capex or withdrawal of funds, adversely impacting the firm's debt coverage metrics, would be a credit negative. Specific credit metrics that could lead to a downgrade includes DSCR of less than 1.1 on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Rice Millers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity

About the company

ARI was founded in 2010 as a partnership firm and is involved in the milling of paddy and produces raw and boiled rice. The firm started its operations in February 2012. It has a milling unit at Settipalem village, Nalgonda district, Telangana, with an installed capacity of 57,600 MTPA.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	51.1	67.8
PAT	0.3	0.4
OPBDIT/OI	4.9%	3.5%
PAT/OI	0.5%	0.7%
Total outside liabilities/Tangible net worth (times)	1.6	2.4
Total debt/OPBDIT (times)	2.7	4.5
Interest coverage (times)	1.6	2.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 24, 2023	Feb 04, 2022	Feb 04, 2021	Dec 05, 2019
1	**Cash Credit**	Long term	7.30	--	**[ICRA]BB-(Stable)**	**[ICRA]BB-(Stable)**	**[ICRA]BB-(Stable)**	**[ICRA]B+ (Stable)**
2	**Term loans**	Long term	0.63	0.63	**[ICRA]BB-(Stable)**	**[ICRA]BB-(Stable)**	**[ICRA]BB-(Stable)**	-
3	**Unallocated**	Long term	5.07	--	**[ICRA]BB-(Stable)**	**[ICRA]BB-(Stable)**	**[ICRA]BB-(Stable)**	**[ICRA]B+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term loan	Simple
Long-term – Unallocated Limits	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	**Cash Credit**	NA	NA	NA	7.30	[ICRA]BB-(Stable)
NA	**Term Loan**	July 2020	7.5%	August 2024	0.63	[ICRA]BB-(Stable)
NA	**Unallocated Limits**	NA	NA	NA	5.07	[ICRA]BB-(Stable)

Source: Company

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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