

February 02, 2024

Sri Ram Industries: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working capital	7.40	7.40	[ICRA]B+(Stable); reaffirmed
Fund-based – Term loan	2.04	2.04	[ICRA]B+(Stable); reaffirmed
Unallocated	1.06	1.06	[ICRA]B+(Stable); reaffirmed
Total	10.50	10.50	

*Instrument details are provided in Annexure-I

Rationale

The rating factors in Sri Ram Industries' (SRI) moderate scale of operations and modest operating margins due to limited value addition in the nature of work done. SRI's total debt is estimated to increase to around Rs. 9-9.5 crore as of March 2024 (PY: Rs. 7.3 crore) to fund the working capital requirements (majorly inventory). Consequently, the leverage, Total Debt/OPBIDTA is projected to be high at 5.3 times as of March 2024 (PY: 5.2 times), with interest coverage at 1.9 times in FY2024 (PY: 2.1 times). The rating continues to be constrained by the entity's presence in a highly fragmented and competitive rice milling industry, which limits its pricing power. SRI's revenues and margins are susceptible to volatile paddy prices, and adverse changes in agro-climatic conditions as well as Government regulations, which can affect the availability of paddy. Additionally, the rating remains constrained by the risks associated with the partnership nature of the firm.

The rating, however, favourably factors in the expected improvement in its operating income (OI) in FY2024 by 9-10%, driven by a rise in sales volume. The firm's OI increased by 25.1% in to Rs. 41.3 crore in FY2023. In 9M FY2024, it reported an OI of Rs. 33.8 crore. The rating also continues to derive comfort from the extensive experience of its promoters in the rice milling industry and easy availability of paddy because of its proximity to major paddy-cultivating regions in northern Karnataka.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that SRI will sustain its revenue growth and continue to benefit from its proximity to rice growing areas.

Key rating drivers and their description

Credit strengths

Expected improvement in revenues in FY2024 – SRI's OI increased by 25.1% in to Rs. 41.3 crore in FY2023. In 9M FY2024, the firm reported an OI of Rs. 33.8 crore. Its OI in FY2024 is expected to improve by 9-10%, driven by an increase in sales volume.

Extensive experience of promoters in rice milling business; proximity to rice growing areas – Incorporated in 2007, SRI is a partnership firm involved in the processing of raw rice and parboiled rice. The firm's milling unit at Manvi, in Raichur district, has an installed capacity of 4 MT per hour. The promoters have been involved in the rice milling business for over two decades. Its plant in Manvi is surrounded by areas such as Raichur, Sindhnoor and Gangavathi, where a major part of the paddy is cultivated. This results in low transportation cost for the firm and easy availability of paddy.

Credit challenges

Moderate scale of operations and modest debt protection metrics – The entity has a moderate scale of operations, and modest operating margins due to limited value addition in work. SRI's total debt is estimated to increase to around Rs. 9-9.5 crore as of March 2024 (PY: Rs. 7.3 crore) to fund the working capital requirements (majorly inventory). Consequently, the leverage, Total Debt/OPBIDTA is projected to be high at 5.3 times as of March 2024 (PY: 5.2 times), with interest coverage at 1.9 times in FY2024 (PY: 2.1 times).

Stiff competition in industry; inherent agro-climatic risks and vulnerability to changes in Government regulations limits pricing power – Owing to low entry barriers, along with readily available technology and proximity to rice cultivating belt, there are more than 100 rice milling units in and around Raichur, leading to intense competition for paddy procurement. This affects volumes and the pricing flexibility of rice millers like SRI. Further, players in the industry face inherent risks such as unfavourable monsoons, unavailability of raw materials at reasonable prices, epidemics in paddy crop or shift of farmers to other cash crops, cyclicalities and are vulnerable to changes in Government regulations and policies.

Inherent risks associated with partnership nature of business – SRI is exposed to risks associated with partnership firms including limited ability to raise capital and capital withdrawal by partners, which could adversely impact its capital structure.

Liquidity position: Stretched

SRI's liquidity position remains stretched as it has minimal cash and cash equivalents, along with thin free cash flows. It has debt repayments of Rs. 0.4-0.5 crore in FY2024 and FY2025. The average working capital utilisation in the past 12 months is 64%, while the utilisation is high during harvest seasons.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of a significant and sustainable increase in scale of operations and earnings, along with improvement in debt protection metrics and liquidity position.

Negative factors – Negative pressure on SRI's rating could arise in case of a decline in revenues or margins leading to weakened debt protection metrics. Any withdrawal of capital or increase in working capital intensity leading to stretch in liquidity position can also lead to a 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	Standalone

About the company

Incorporated in 2007, Sri Ram Industries is a partnership firm involved in milling of paddy and produces non-basmati raw rice. The firm's major products include boiled rice, raw rice, bran, broken rice and husk. SRI has a milling unit in Manvi, in Raichur district, Karnataka with an installed milling capacity of 4 MT per hour. Its plant is spread over 3.5 acres with a storage capacity of 80,000 bags (75 kg each) of paddy and 250 MT of rice. SRI sells raw rice under eight brands namely, KDM, Ram, Shilpa, RSK, MVM, AKS, VTC and Double Parrot. Also, it sells broken rice under two brands namely, Rabbit and Helicopter.

Key financial indicators (audited)

SRI Standalone	FY2022 (Audited)	FY2023 (Audited)
Operating income (Rs. crore)	32.9	41.3
PAT (Rs. crore)	0.4	0.4
OPBDIT/OI (%)	6.1%	3.4%
PAT/OI (%)	1.1%	1.1%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	3.6	5.2
Interest coverage (times)	1.5	2.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating on	FY2023	FY2022	FY2021
				February 02, 2024	December 30, 2022	September 29, 2021	June 16, 2020
1 Cash credit	Long-term	7.40	4.51	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2 Term loan	Long-term	2.04	1.28	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
3 Unallocated	Long-term	1.06	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Working capital	Simple
Fund-based – Term loan	Simple
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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	7.40	[ICRA]B+ (Stable)
NA	Term loans	FY2021-FY2022	-	FY2025-FY2027	2.04	[ICRA]B+ (Stable)
NA	Unallocated limits	-	-	-	1.06	[ICRA]B+(Stable)

Source: Company

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

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