January 30, 2025

Vaishnavi 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	20.00	20.00	[ICRA]BB- (Stable); reaffirmed
Long-term – Fund based – Term loans	4.62	4.62	[ICRA]BB- (Stable); reaffirmed
Long-term/Short-term – Unallocated limits	0.38	0.38	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of the ratings continues to take into consideration the extensive experience of Vaishnavi Rice Industries' (VRI) partners in the rice milling industry and the location-specific advantage derived from VRI's presence in a major rice-growing area, resulting in easy availability of paddy. The ratings consider the favourable demand prospects of the industry as India is the second largest producer and consumer of rice internationally, which augurs well for the firm. The firm's operating margin improved in FY2024 on account of an increased demand in the export market and relatively higher realisations. However, as per ICRA's estimates, the firm's profitability is likely to remain stable in FY2025. ICRA notes the breach in the negative trigger earlier specified, however, it expects that the firm's interest cover would improve in the current fiscal.

However, the ratings continue to be constrained by VRI's modest scale of operations with revenues of Rs. 114.6 crore in FY2024 and a stretched liquidity position, as reflected in high utilisation of working capital limits in FY2024. The ratings are also constrained by the firm's moderate financial risk profile, characterised by a gearing of 0.8 times as on March 31, 2024, an interest coverage ratio of 1.5 times and NCA/Total Debt of 15.8% in FY2024. The firm's revenues remain susceptible to the agro-climatic risks, which impact the availability of paddy in adverse weather conditions. The risks associated with the partnership nature of business, including the risk of capital withdrawal, among others also impact the ratings.

The Stable outlook on the long-term rating reflects ICRA's opinion that VRI will continue to register a steady revenue growth and stable profits, supported by the extensive experience of its partners in the rice milling industry and presence of the mill in a major rice-growing area.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in rice milling business – The firm was established as a partnership firm in 2012 by Mr. Mallidi Venkata Krishna Reddy and other family members. The partners have been involved in rice milling, processing and sorting for more than two decades. The partners' long presence in the industry has helped the firm establish strong relationships with suppliers and customers.

Presence in major rice-growing area results in easy availability of paddy – The firm, with a milling capacity of 26 metric tonnes per hour (MTPH), is in the East Godavari district of Andhra Pradesh, a major rice-growing area. This results in easy availability of paddy at competitive prices, at low transportation costs. 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

Weak debt coverage indicators – The operating profit margin of the firm has improved in FY2024. Going forward, considering limited value addition and an intensely competitive industry, which limits its scope of margin expansion, the firm's profit would be limited. Consequently, the firm's debt protection metrics continue to remain weak, though it improved to some extent in FY2024, as reflected by Total Debt/OPBDITA of 4.0 times (7.4 times in FY2023) and an interest cover of 1.5 times (1.3 in FY2023) as on March 31, 2024. ICRA expects the interest coverage to improve in the current fiscal with reduction in the overall interest cost.

Working capital intensive nature of operations, impacting liquidity – The firm's working capital intensity remains high on account of its large inventory, which includes paddy as well as processed rice. The firm's utilisation of its bank limits is generally 80-90%, which provides limited buffer. Nevertheless, the firm has enhanced its working capital limits to Rs. 27.0 crore from Rs. 20.0 crore in October 2023, which currently provides some buffer in its limits. The liquidity of the firm remains stretched with stable but limited cash accruals and nominal free cash balances. However, partners provide regular need-based support in the form of unsecured loans with flexible repayment terms.

Intense competition in the industry – The rice industry is very competitive and fragmented in nature because of the presence of established players as well as numerous small companies in the unorganised sector. Given the low capex and lack of technical complexity of the work, the entry barriers have remained low, and thus many small-to-medium scale enterprises operate in the segment.

Susceptibility to agro-climatic and regulatory changes – The rice milling industry is susceptible to agro-climatic risks, which can affect the availability of paddy in any adverse weather conditions. It is exposed to Government policies such as minimum support price (MSP), affecting the raw material prices and export regulations impacting business and profitability. Any major change in the Government regulations pertaining to the rice industry can impact the industry dynamics.

Risks related to partnership nature of the firm – The firm is exposed to the risks related to a partnership firm, including the capital withdrawal risk. However, no capital withdrawal has been observed in the past three years.

Liquidity position: Stretched

The firm's liquidity position is stretched on account of limited cash accruals of around Rs. 2.0 crore and limited buffer in its working capital limits due to 95-97% utilisation during the peak season. Enhancement in sanctioned limits since October 2023 provides some buffer. The firm does not have plans for any significant capex in the near term. However, it has repayment obligations of Rs. 1.2 crore in FY2025, which would be met by the firm's cash flow and need-based support, in the form of unsecured loans from the partners.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if VRI can increase its revenues and profitability, along with an improvement in its debt protection metrics and liquidity, on a sustained basis.

Negative factors – Pressure on VRI's ratings could arise if there is any significant decline in its revenues or profitability, impacting its financial profile and liquidity. A specific credit metric for ratings downgrade includes interest cover of less than 2.0 times, on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rice Mills](#)
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Vaishnavi Rice Industries (VRI) was established as a partnership firm in 2012 by Mr. Mallidi Venkata Krishna Reddy and other family members. The promoter had prior business experience through another firm, Sri Parvathi Parameswara Foods (SPPF), which was involved in producing raw and boiled rice. However, the lease period of the land, on which SPPF's facility was established, has expired and consequently the firm has been dissolved. The rice milling unit of VRI is located in the East Godavari district of Andhra Pradesh with an installed capacity of 26 MTPH. The day-to-day operations of the firm are overseen by its Managing Partner, Mr. Reddy.

Key financial indicators (audited)

Vaishnavi Rice Industries	FY2023	FY2024
Operating income	111.7	114.6
PAT	0.9	0.9
OPBDIT/OI	2.2%	2.9%
PAT/OI	0.8%	0.8%
Total outside liabilities/Tangible net worth (times)	1.5	1.0
Total debt/OPBDIT (times)	7.4	4.0
Interest coverage (times)	1.3	1.5

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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 30, 2025	Nov 17, 2023	Sept 29, 2022	Oct 28, 2021
1	Fund based - Cash Credit	Long-term	20.00	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]BB-(Stable)
2	Fund based – Term Loans	Long-term	4.62	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]BB-(Stable)
3	Unallocated Limits	Long-term/ short-term	0.38	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]B+(Stable)/ [ICRA]A4	[ICRA]BB-(Stable) [ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund based – Cash credit	Simple
Long-term – Fund based – Term loans	Simple
Long-term/short-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	9.85%	NA	20.00	[ICRA]BB-(Stable)
NA	**Term loans**	FY2021	10.60%	FY2027	4.62	[ICRA]BB-(Stable)
NA	**Unallocated limits**	NA	NA	NA	0.38	[ICRA]BB-(Stable)/[ICRA]A4

Source: Company

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

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