

February 10, 2025

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 considers Sri Ram Industries' (SRI) moderate scale of operations with estimated revenues of Rs. 32-35 crore in FY2025, along with modest operating margins due to limited value addition in the work done and highly fragmented and intense competition in the rice milling industry, which limits its pricing power. SRI's total debt is estimated at Rs. 10-12 crore as of March 2025 (PY: Rs. 10.7 crore), which will majorly fund the working capital requirements (inventory). Consequently, the debt protection metrics are estimated to remain modest, with high leverage, Total Debt/OPBIDTA of 6.0-6.5 times as of March 2025 and weak interest coverage of 1.7-2.0 times in FY2025. 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 extensive track record of Sri Ram Industries' (SRI) partners in the rice milling industry and ease in paddy procurement owing to the proximity of its plant to major paddy-cultivating regions in northern Karnataka. The firm's business continues to derive comfort from the favourable demand prospects of the industry as India is the second-largest producer and consumer of rice, globally.

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

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in rice milling business; proximity to rice-growing areas – SRI is 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 and, hence, have extensive operational track record in the rice milling industry. Its plant in Manvi is surrounded by areas such as Raichur, Sindhnoor and Gangavathi, hence has proximity to major paddy-cultivating regions in northern Karnataka. This yields low transportation cost for the firm and easy availability of paddy.

Favourable long-term demand outlook – The demand prospects of the rice industry are expected to remain favourable, supported by India's growing population with rice remaining a staple food grain in the country. Moreover, the firm's business continues to derive comfort from the favourable demand prospects of the industry as India is the second-largest producer and consumer of rice, globally.

Credit challenges

Moderate scale of operations and modest debt protection metrics – The scale of operations remains moderate with estimated revenues of Rs. 32-35 crore in FY2025 (PY: Rs. 41.7 crore) with modest operating margins due to limited value addition in work done, along with highly fragmented and intense competition in the rice milling industry, which limits its pricing power. The total debt is estimated at Rs. 10-12 crore as of March 2025 (PY: Rs. 10.7 crore), which will majorly fund the working capital requirements (inventory). Consequently, the debt protection metrics are estimated to remain modest, with high leverage, Total Debt/OPBITDA of 6.0-6.5 times as of March 2025 and weak interest coverage of 1.7-2.0 times in FY2025

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, resulting in intense competition for paddy procurement. This affects volumes and limits the pricing flexibility for rice millers. 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, volatile paddy prices, 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 nature of firm 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 with minimal cash and cash equivalents. The firm had an average working capital utilisation of 73% in the past 12 months, while the utilisation is high during harvest seasons. The firm has low debt repayment obligations in FY2025 and FY2026, which are expected to be adequately met through its cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of a significant and sustained 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 Rice Mills
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Sri Ram Industries, incorporated in 2007, 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	FY2023	FY2024	9M FY2025*
Operating income	41.3	41.7	25.6
PAT	0.4	0.4	0.9
OPBDIT/OI	3.5%	4.2%	6.8%
PAT/OI	1.1%	1.0%	3.5%
Total outside liabilities/Tangible net worth (times)	1.3	1.6	1.9
Total debt/OPBDIT (times)	5.1	6.2	6.0
Interest coverage (times)	2.0	1.7	2.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 10, 2025	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	7.40	[ICRA]B+(Stable)	Feb-02-2024	[ICRA]B+(Stable)	Dec-30-2022	[ICRA]B+(Stable)	Sep-29-2021	[ICRA]B+(Stable)
Term loan	Long term	2.04	[ICRA]B+(Stable)	Feb-02-2024	[ICRA]B+(Stable)	Dec-30-2022	[ICRA]B+(Stable)	Sep-29-2021	[ICRA]B+(Stable)
Unallocated	Long term	1.06	[ICRA]B+(Stable)	Feb-02-2024	[ICRA]B+(Stable)	Dec-30-2022	[ICRA]B+(Stable)	Sep-29-2021	[ICRA]B+(Stable)

Complexity level of the rated instruments

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](https://www.icra.in)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	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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