February 27, 2025

Raghu Rama Rice Industry: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	12.00	12.00	[ICRA]B+ (Stable); reaffirmed
Long Term - Fund Based - Term Loan	1.80	0.00	-
Long Term - Unallocated	2.20	4.00	[ICRA]B+ (Stable); reaffirmed
Total	**16.00**	**16.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation considers the extensive track record of Raghu Rama Rice Industry's (RRRI) partners in the rice milling industry and ease in paddy procurement owing to the proximity of its plant to a major rice growing region of Andhra Pradesh. 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, internationally. The firm benefited from the high realisation of milled rice in FY2023, resulting in a significant growth in its revenues. However, in FY2024, the firm's top line contracted by around 18% on account of a moderation in realisation of milled rice and a decline in sales volume on an overall basis. Nevertheless, the firm's operating profit margin (OPM) increased to 4.2% in FY2024 from 3.6% in FY2023 as the raw material (paddy) price in FY2024 was lower than FY2023, and ICRA expects the OPM in FY2025 to remain in line with FY2024.

However, the rating is constrained by RRRI's small scale of operations amid intense competition in the rice milling industry, which restricts its operating margin. The rating considers RRRI's weak financial risk profile, characterised by its depressed debt coverage metrics and stretched liquidity, impacted by high working capital requirements. Going forward, given the high working capital requirements and low profitability, the financial risk profile of RRRI would continue to remain under pressure. The rating also factors in the agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. RRRI is also susceptible to risks associated with regulatory changes and Government policies. The risks related with the partnership nature of the business, including the risk of capital withdrawal, among others, also impact the rating. Given the thin margin in the business and high working capital intensity, the firm's liquidity position is likely to remain stretched and any further pressure would be a key rating sensitivity.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that RRRI will continue to benefit from the extensive experience of its partners in the rice milling industry and presence of the mill in a major rice growing area, which supports its business and profitability.

Key rating drivers and their description

Credit strengths

Significant experience of partners in rice milling and trading business – The partners have long presence in the rice milling industry with over two decades of experience, resulting in established relationships with its customers.

Presence in a major rice growing area results in easy availability of paddy – RRRI's plant is located in Jagannadhagiri village of East Godavari district, Andhra Pradesh, which is a major rice growing area. This results in easy availability of paddy and low transportation cost for the firm. 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

Modest scale and profitability – The firm is a small-scale player in a highly fragmented and competitive rice milling industry, characterised by the presence of numerous organised and unorganised players, impacting the margin. The firm's turnover decreased by ~18% to Rs. 70.4 crore in FY2024 from Rs. 85.5 crore in FY2023 due to lower sales volume and moderation of milled rice sales realisation. The firms operating profits also remained low in absolute terms, which further declined marginally to Rs. 2.9 crore in FY2024 from Rs. 3.1 crore in FY2023. However, the firm's overall operating profit margin increased to 4.2% in FY2024 from 3.6% in FY2023 as the raw material (paddy) price in FY2024 was lower vis-à-vis FY2023.

Weak financial profile and stretched liquidity – Driven by low profitability, the firm's debt coverage metrics continue to remain under pressure, as reflected by Total Debt/OPBDITA of 5.2 times, interest coverage of 1.4 times and NCA/TD of 5% (5.0 times, 1.5 times and 6%, respectively in FY2023) in FY2024. Due to high working capital intensity, the firm has a limited cushion available in its working capital limits, with a high average utilisation of ~98% in the past 12 months till October 2024.

Intense competition in the 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 RRRI, and results in modest profitability.

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

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

Liquidity position: Stretched

RRRI's liquidity position continues to remain stretched on account of limited buffer in its working capital limits with 98% average utilisation during the 12-month period ending in October 2024. The cash flow from operations stood low at Rs. 1.34 crore in FY2024 and the same is expected to reduce in FY2025 due to the likely increase in the working capital requirement to support the top-line growth. The firm has nominal repayment obligation in FY2025 and has no major capex plan in the near term, which provides some comfort. As per ICRA's estimates, the expected cash flows and need-based support, in the form of unsecured loans from the partners would be critical in meeting any cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade RRRI's rating if the firm demonstrates a sustained increase in its revenues and profitability along with an improvement in its liquidity and debt coverage metrics. Specific credit metric that could lead to an upgrade of RRRI's rating include an interest coverage ratio of more than 2.0 times on a sustained basis.

Negative factors – Pressure on the rating could arise if there is a significant decline in revenues or profitability, leading to a further stretch in its liquidity and coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rice Mills
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Established in 2012 as a partnership firm, RRRI is involved in milling of paddy and produces raw and boiled rice. The firm started its operations in June 2013. It has a milling unit at Jagannadhagiri village in East Godavari district, Andhra Pradesh, with an installed capacity of 8 MT of paddy per hour.

Key financial indicators (audited)

RRRI Standalone	FY2022	FY2023	FY2024
Operating Income (Rs. crore)	68.3	85.5	70.4
PAT (Rs. crore)	0.2	0.3	0.3
OPBDITA/OI (%)	3.1%	3.6%	4.2%
PAT/OI (%)	0.4%	0.4%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.8	1.8
Total Debt/OPBDITA (times)	6.1	5.0	5.2
Interest Coverage (times)	1.7	1.5	1.4

Source: Firm, 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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 27, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based - Cash credit	Long term	12.00	**[ICRA]B+ (Stable)**	02-Nov-2023	[ICRA]B+ (Stable)	06-Oct-2022	[ICRA]B+ (Stable)	07-Oct-2021	[ICRA]B+ (Stable)
Fund based – Term loan	Long term	0.00	-	02-Nov-2023	[ICRA]B+ (Stable)	06-Oct-2022	[ICRA]B+ (Stable)	07-Oct-2021	[ICRA]B+ (Stable)
Unallocated	Long term	4.00	**[ICRA]B+ (Stable)**	02-Nov-2023	[ICRA]B+ (Stable)	06-Oct-2022	[ICRA]B+ S(Stable)	07-Oct-2021	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – cash credit	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund based – CC**	NA	9.25%	NA	12.00	[ICRA]B+ (Stable)
NA	**Unallocated**	NA	NA	NA	4.00	[ICRA]B+ (Stable)

Source: Firm

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

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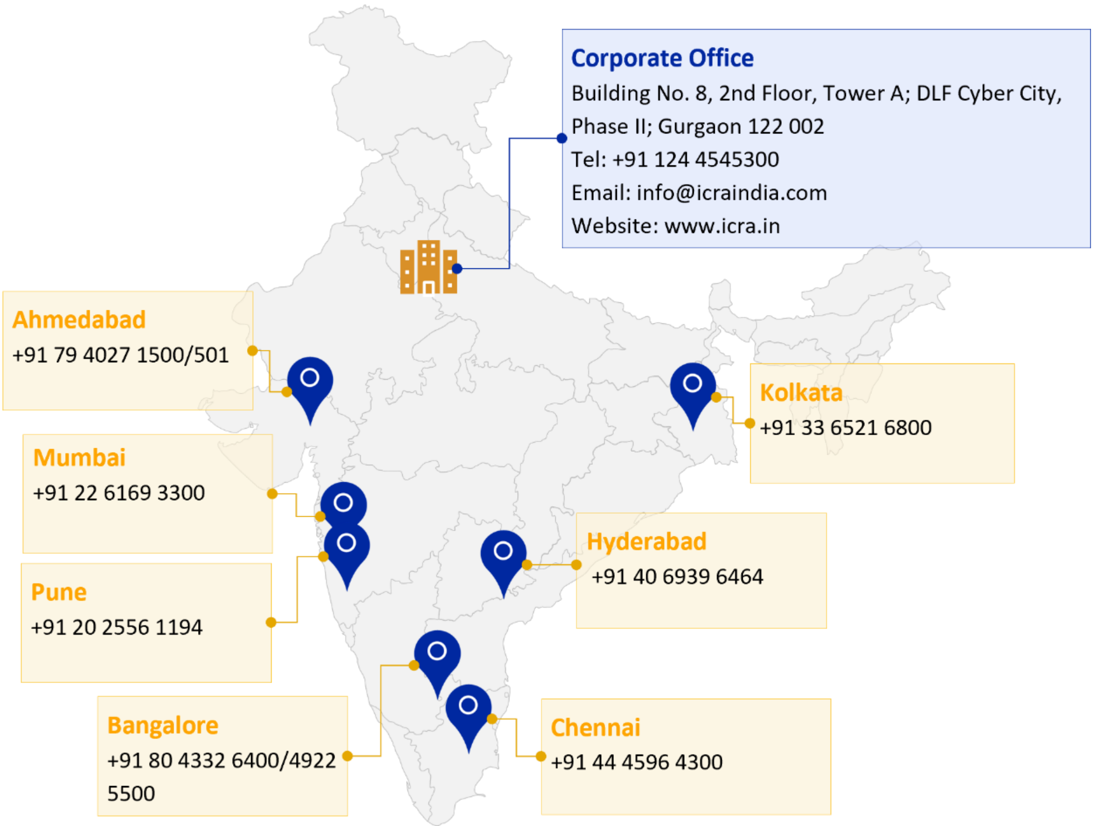

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