

April 04, 2023

## Sri Vijaya Lakshmi Raw & Boiled Rice Mill: Rating reaffirmed and removed from Issuer Not Cooperating category

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	45.00	45.00	[ICRA]B+ (Stable); reaffirmed and removed from 'Issuer Not Cooperating' category
Long-term – Unallocated Limits	3.00	3.00	[ICRA]B+ (Stable); reaffirmed and removed from 'Issuer Not Cooperating' category
<b>Total</b>	<b>48.00</b>	<b>48.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmed rating has been removed from the Issuer Not Cooperating category after receiving information from the firm required to carry out the surveillance exercise. The rating continues to take into consideration Sri Vijaya Lakshmi Raw & Boiled Rice Mill's (SVLRM) experienced management with an extensive operational track record in the rice industry. The firm enjoys considerable location-specific advantages due to its presence in a major rice-growing area of Andhra Pradesh, 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.

The rating is, however, constrained by the firm's moderate scale of operations with revenue of Rs. 312.0 crore in FY2022 in a highly fragmented rice-milling industry, limiting its financial flexibility. The firm's leveraged financial risk profile, characterised by high gearing and depressed debt coverage metrics, adversely impacts the rating. Moreover, the firm's liquidity is likely to remain stretched on account of high working capital intensity and limited buffer in available credit limits. 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 SVLRM's revenues. Further, intense competition in the rice industry, risks associated with adverse Government regulations and risks associated with the partnership nature of the business, including the risk of capital withdrawal, among others would continue to exert pressure on the rating.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that the firm will continue to benefit from its extensive track record of operations and healthy demand prospects for rice, which would result in a steady revenue growth.

### Key rating drivers and their description

#### Credit strengths

**Significant experience of the promoters and established track record of the firm** – The firm is present in the rice milling industry for over three decades, resulting in an established relationship with the customers.

**Presence in major rice-growing area results in easy availability of paddy** – The firm, with a milling capacity of 3,19,500 MTPA, is located in the East Godavari district of Andhra Pradesh, a major rice-growing area. This results in easy availability of paddy at competitive prices, and 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

**Moderate scale of operations and leveraged financial risk profile on the back of high working capital intensity** – SVLRM’s scale of operations remained at Rs. 312.0 crore in FY2022 with an installed capacity of 3,19,500 MT of paddy per annum. 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 1.5 times, DSCR of 0.7 and NCA/TD of 4.1% in FY2022. The high working capital intensity (more than 35% in FY2022) on account of a large inventory maintained by the firm results in high utilisation of its bank limits, thereby impacting its capital structure and debt coverage metrics.

**Exposed to high product concentration risk, intense competition** – The firm remains exposed to high product concentration with more than 85% of its total sales coming from raw rice and boiled rice. Additionally, 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 SVLRM, 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, in turn, expose SVLRM to price volatility risks. Moreover, changes in the Government regulations pertaining to the rice industry can impact the industry dynamics.

**Risks related to partnership nature of firm** – SVLRM 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 likely to remain stretched in the near term on account of limited accruals and high working capital intensity with limited cushion in the available bank limits. While the firm does not have any major capex plan in the near term, it has term loan repayments of Rs. 1.34 crore in FY2024 and Rs. 1.24 crore in FY2025. Its working capital utilisation remained high at 99% during the last 12 months ending in February 2023. 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 SVLRM’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 SVLRM’s ratings could arise if any sharp decline in revenues, or any drop in margin or a stretch in the working capital cycle impacts the firm’s liquidity position. Any unanticipated debt-funded capex or capital withdrawal resulting in a deterioration in the firm’s liquidity and debt protection metrics could also result in a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Policy in respect of non-cooperation by the rated entity</a> <a href="#">Rating Methodology for Rice Millers</a>
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

Sri Vijaya Lakshmi Raw & Boiled Rice Mill (SVLRM) was incorporated in 1992 as a partnership firm and has been engaged in the milling of paddy and produces raw and boiled rice. The firm has a milling unit in Nadakuduru (East Godavari district) of Andhra Pradesh with an installed processing capacity of 3,19,500 MTPA. The firm also has 1-MW biomass-based power plant used for captive consumption. The firm sells rice under its own brands, namely Horse, Hansa and GHNR, especially in Kerala.

## Key financial indicators (audited)

Sri Vijaya Lakshmi Raw & Boiled Rice Mill	FY2021	FY2022
Operating income	312.2	312.0
PAT	2.9	1.6
OPBDIT/OI	4.8%	4.0%
PAT/OI	0.9%	0.5%
Total outside liabilities/Tangible net worth (times)	2.6	2.3
Total debt/OPBDIT (times)	6.8	7.5
Interest coverage (times)	1.6	1.5

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

## Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
BRICKWORKS	BWR BB-(Stable)/BWR A4; ISSUER NOT COOPERATING	January 20, 2023

Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Apr 04, 2023	Dec 14, 2022	Nov 30, 2021	Sept 14, 2020	Jun 16, 2020
1 Cash Credit	Long term	45.00	--	[ICRA]B+ (Stable)	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]BB- (Stable) ISSUER NOT COOPERATING
2 Unallocated	Long term	3.00	--	[ICRA]B+ (Stable)	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]BB- (Stable) ISSUER NOT COOPERATING

## 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	9.20%	NA	45.00	[ICRA]B+(Stable)
NA	Unallocated	-	-	-	3.00	[ICRA]B+(Stable)

Source: Company

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

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### Branches



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