

November 01, 2023

Sri Ramalingeswara Modern Rice Mill: Long-term rating reaffirmed and short-term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	81.00	81.00	[ICRA]BB+(Stable); reaffirmed
Long-term – Unallocated	2.00	2.00	[ICRA]BB+(Stable); reaffirmed
Short-term Non-fund based – Bank Guarantee [^]	0.00	(10.00)	[ICRA]A4+; assigned
Total	83.00	83.00	

*Instrument details are provided in Annexure-1; [^]Bank Guarantee as sub-limit of Cash Credit limit

Rationale

The assigned ratings continue to derive strength from the extensive experience of the firm’s management for more than three decades in the rice milling industry and the established brand name of Cow & Calf in Andhra Pradesh. 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 ratings also note favourable demand prospects of rice as India is the second largest producer and consumer of rice. The assigned ratings consider the firm’s average-sized scale of operations with an operating income (OI) of Rs. 351.4 crore in FY2023, though it has grown marginally over the recent years. ICRA notes that the overall impact of the Government restrictions related to rice exports on the firm’s business has been limited as its entire sales is made in the domestic market.

The ratings, however, remain constrained by the low profit margins on account of extending cash discount to the customers and higher cost of paddy and operations, which resulted in low cash accruals and a moderate financial profile. Moreover, the firm’s liquidity has remained stretched, as reflected by high utilisation of its limits and moderately high working capital intensity. Nevertheless, ICRA notes that the profitability has now stabilised at 2.5-3.0%, which is in line with the peers in the rice milling industry. The firm’s moderate financial profile emanates from Total Debt/OPBDITA of 7.8 times, interest coverage of 1.5 times and low DSCR of 1.1 times in FY2023. Intense competition in the rice industry amid several small-scale players limits the pricing flexibility of industry participants. The firm remains exposed to high product concentration as raw rice accounts for 81.9% of total sales along with high geographical concentration with 85.5% of rice sales in FY2023 taking place within Andhra Pradesh. Further, its operations are susceptible to raw material availability, the quality and pricing of which depend on climatic conditions and the Government’s regulations. The ratings also consider the risks inherent to the partnership nature of the firm.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA’s opinion that SRMRM 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

Established track record and brand presence of the firm – SRMRM was established as a partnership firm in 1982 by Mr. Krishna Reddy. He was involved with the rice milling industry for more than three decades. Over the years, SRMRM has been able to develop a strong brand (Cow & Calf), primarily present in Andhra Pradesh, which enabled it to achieve a steady increase in its scale of operations. Mr. T. Veera Raghava Reddy became the new Managing Partner after the partnership deed was reconstituted on March 25, 2020. There has been no material impact on the firm’s business due to management change during the last two financial years.

Presence in major rice growing area results in easy availability of paddy – The firm’s milling unit is located in the East Godavari district of Andhra Pradesh, which is a major rice growing area, resulting in easy availability of paddy. It has a milling capacity of 18 metric tonnes per hour (MTPH) with healthy capacity utilisation over the past two years. 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 financial risk profile – SRMRM’s financial risk profile was moderate in FY2023 with a gearing of 1.2 times, DSCR of 1.1 times, an interest coverage of 1.5 times and Total Debt/ OPBDITA of 7.8 times as on March 31, 2023. The moderation can be attributed to a significant decline in the firm’s operating profitability to 2.4%-3.0% in the recent years from an average of 5% in the past years, leading to lower cash accruals and stretched liquidity. As on March 31, 2023, the firm’s total debt stood at Rs. 82.7 crore, comprising working capital of Rs. 78.3 crore, interest-free unsecured loans of Rs. 4.1 crore, and term loans of Rs. 0.3 crore.

Intense competition in the rice industry amid high product and geographical concentration risks – The fragmented nature of the rice industry results in stiff competition, which limits the pricing flexibility of the industry participants. This keeps the profitability at modest level. However, the reputed brand name of Cow & Calf supports the firm’s margins to an extent. Also, the firm remains exposed to high product concentration risk as 81.9% of the total sales came from raw rice in FY2023. It is also exposed to high geographical concentration risk as 85.5% of rice sales in FY2023 took place within Andhra Pradesh. Nevertheless, ICRA notes that the firm has commissioned the Rava unit in FY2023, revenue from which, though nominal, could be in the range of Rs. 7-15 crore during the initial years. ICRA believes that addition of such products would support the firm in diversifying its business profile.

Susceptibility 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 SRMRM to price volatility risks. Moreover, changes in the Government regulations pertaining to the rice industry, such as export policy, can impact the industry dynamics.

Risks related to partnership nature of the firm – SRMRM is exposed to the risks inherent to a partnership firm, including the capital withdrawal risk. However, only one instance of capital withdrawal has been observed in the past eight years, which stood at a nominal Rs. 0.6 crore in FY2021.

Liquidity Position – Stretched

SRMRM’s liquidity position is stretched on account of a significant decline in its profitability, leading to lower cash accruals, as reflected by a low DSCR of 1.01 times in FY2023. The firm’s utilisation of the working capital limits (including ad-hoc and Bank Guarantee limits) stood high at an average of around 97% in the past 12 months ending in September 2023. The firm’s ability to effectively manage its working capital cycle and timely infusion of funds by the partners will be key determinants of its liquidity position. The firm’s liquidity would remain exposed to the risk of capital withdrawal, given the partnership nature of the firm.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the firm’s scale of operations and profitability, along with an improvement in SRMRM’s liquidity position and debt protection metrics on a sustained basis. A specific credit metric for ratings upgrade include OPBITDA/Interest of more than 2.8 times, on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a sharp decline in SRMRM’s revenues or profitability, impacting its financial profile on a sustained basis. Also, any large capital withdrawal or a significant increase in the working capital intensity, leading to a tightened liquidity position, can trigger ratings 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	The ratings are based on the standalone financial profile of the company

About the company

Founded in 1982 as a partnership firm, SRMRM is involved in the milling of paddy to produce raw and boiled rice. The rice mill is located at Penuguduru village of East Godavari district, Andhra Pradesh. The firm's operations are overseen by its Managing Partner, Mr. T. Veera Raghava Reddy. The installed production capacity of the rice mill is 18 tonnes per hour. SRMRM sells all its products under the brand name of Cow & Calf.

Key financial indicators

	FY2022	FY2023
Operating income	346.6	351.4
PAT	1.8	2.3
OPBDIT/OI	2.6%	3.0%
PAT/OI	0.5%	0.6%
Total outside liabilities/Tangible net worth (times)	1.3	1.3
Total debt/OPBDIT (times)	9.0	7.8
Interest coverage (times)	1.5	1.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

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 (crore) as on Sep 30, 2023	Date and Rating on	Date & Rating				
						FY2023	FY2022	FY2021		
Nov 01, 2023	Dec 22, 2022	Jun 30, 2022	Jun 18, 2021	May 12, 2020						
1	Fund-based – Cash Credit	Long-term	81.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Unallocated	Long-term	2.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
3	Non-fund based – Bank Guarantee [^]	Short-term	(10.00)	-	[ICRA]A4+	-	-	-	-	

[^]Bank Guarantee as sub-limit of Cash Credit limit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple

Long-term – Unallocated	Not applicable
Short-term Non-fund based – Bank Guarantee	Very Simple

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, is available on ICRA's website: [Click Here](#)

Annexure-1: 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 – Cash Credit	NA	NA	NA	81.00	[ICRA]BB+ (Stable)
NA	Long-term – Unallocated	NA	NA	NA	2.00	[ICRA]BB+ (Stable)
NA	Short-term Non-fund based – Bank Guarantee [^]	NA	NA	NA	(10.00)	[ICRA]A4+

Source: Company; [^]Bank Guarantee as sub-limit of Cash Credit limit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Manish Pathak

+91 124 4545397

manishp@icraindia.com

Sandeep Aggarwal

+91 124 4545377

sandeep.aggarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



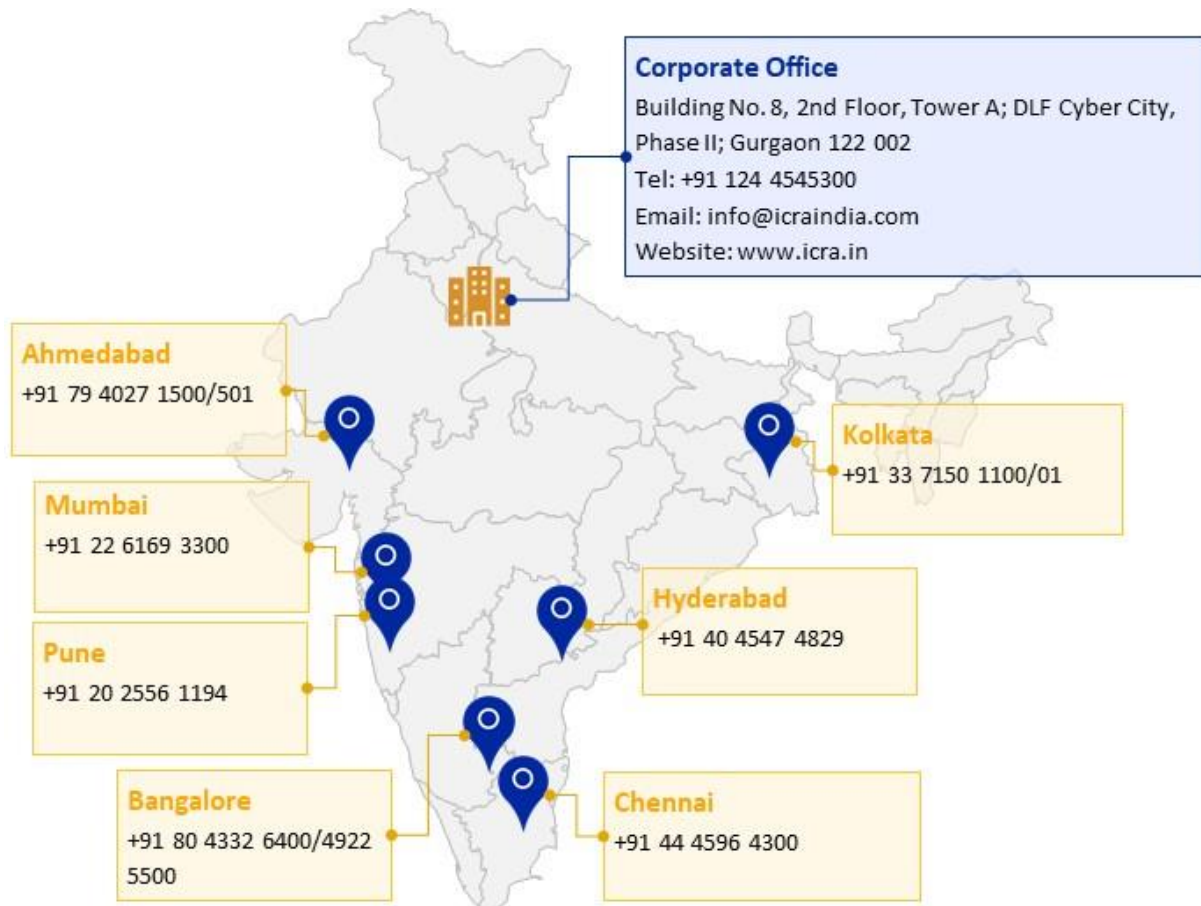
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.