ICRA

July 19, 2017

Sri Lalitha Enterprises Industries Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Working Capital Limits	345.0	[ICRA]A- (stable) reaffirmed
Term Loans	15.0	[ICRA]A- (stable) reaffirmed
Total	**360.0**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of Sri Lalitha Enterprises Industries Private Limited (Sri Lalitha)[1] at [ICRA]A- (pronounced ICRA A minus) for Rs. 360.0 crore[2] fund based facilities. The outlook for the long-term rating is Stable.

Detailed Rationale

The rating action takes into account Sri Lalitha's established operational track record and long experience of its promoters in the rice milling industry; it's sizeable and semi integrated manufacturing setup; locational advantage of being present in a major rice producing region; well established brand in Andhra Pradesh and neighbouring states; and a well entrenched distribution network. These factors have enabled the company to emerge as a major organized player in the non basmati rice industry with the company achieving steady growth in revenues. Further Sri Lalitha's liquidity position is supported by deployment of internal accruals/promoter funds for meeting the working capital requirements of the business resulting in limited reliance on external debt, no major debt funded capex plans and limited debt servicing commitments over the next few years vis-à-vis internal accrual generation. Consequently the interest expense of the company has also declined over the years, resulting in some improvement in debt protection metrics in FY2017. The rating also factors in the diversification benefit on account of presence in export market as well.

However the rating is constrained by high competitive intensity of the industry which limits the pricing flexibility of the industry participants including the company thereby keeping the profitability modest; and vulnerability of the company's profitability margins to volatility in agro commodity prices and foreign exchange risk, as part of the revenue is contributed by exports. Also the working capital requirements of the business have increased due to increase in inventory levels. Moreover as the company is operating in an agro-based industry, its operations remain susceptible to raw material availability, whose quality and pricing depend on monsoon and climatic conditions; and changes in government regulations for the industry.

Going forward, the company's ability to maintain its revenue growth and profitability; and improvement in debt protection metrics, will remain the key rating sensitivities.

---

[1] For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

a. Promoters have long experience of the more than five decades in the rice milling industry
b. Sizeable milling capacity provides benefit of economies of scale
c. Well established brand in the domestic market.
d. Given the semi integrated nature of operations, the operating cost structure is supported by captive power supply through husk fired co-generation power plant
e. Presence in a major rice growing area results in easy availability of paddy for the company
f. Liquidity position supported by healthy internal accruals and moderate debt repayments vis-à-vis cash accruals

Credit Weakness

a. High competitive intensity of the industry limits the pricing flexibility of the industry participants including Sri Lalitha.
b. Modest profitability margins on account of high competition and exposure to raw material price volatility.
c. High working capital intensity of the business on account of high inventory levels which have increased over the years.
d. Changes in government regulations pertaining to the industry can impact the industry dynamics.
e. Inherent risks due to agro climatic conditions could affect the availability of paddy

Detailed description of key rating drivers highlighted above:

Sri Lalitha is primarily involved in milling and sale of non basmati rice. The company continues to benefit from of its established operational track record and long experience of its promoters in the business. Over the years the company has setup a sizeable semi integrated manufacturing base, which provides economies of scale and supports the cost structure. Also strong brand presence in Andhra Pradesh and neighboring states has driven the growth in scale of operations and enabled the company to largely sustain its profitability margins. Moreover reliance on external debt is contained in the absence of any debt funded capex and steady internal accrual generation, which are expected to be sufficient to meet the debt servicing liability over the medium term. Coupled with a decline in interest expense, there has been some improvement in debt protection metrics and gearing level in FY2017.

The company operates in a highly competitive and fragmented industry which limits its pricing flexibility. Also its profitability margins remain exposed to volatility in agro commodity prices and foreign exchange risk, as part of the revenue is generated through exports. Moreover as the company is operating in an agro-based industry, its operations remain susceptible to agro related risks and changes in government regulations. The working capital requirements of the business have increased due to increase in inventory levels.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria
Rating Methodology for Issuers in the Indian Rice Industry
Corporate Credit Rating Methodology

About the Company:

Sri Lalitha Enterprises was incorporated as a proprietorship in 1958, converted into a partnership in 1979 and subsequently converted into a private limited company in 2004 and named Sri Lalitha Enterprises Industries Private Limited. The company is engaged in the milling of paddy and produces raw and boiled rice. The company has a milling capacity of the company is 2400 Metric Ton (MT) of paddy per day, located in East Godavari district of Andhra Pradesh. The company also has warehouse facilities of 37.90 Lac Quintals for storage of the paddy and finished rice products and a rice husk based cogeneration power plant with a capacity of 9.33 MW which is used to supply electricity to the rice mill.

In FY2017, Sri Lalitha reported an operating income of Rs. 1,159.2 crore and a net profit of Rs. 25.0 crore against an operating income of Rs. 1,114.9 crore and profit after tax of Rs. 20.9 crore in FY2016.

Key Financial Indicators

Particulars (Rs. Crore)	**FY2016**	**FY2017**
Operating Income	1,114.9	1,159.2
PAT	20.9	25.0
OPBDITA/OI (%)	5.3%	5.0%
RoCE (%)	1.9%	2.2%
Total Debt/TNW (times)	2.4	2.1
Total Debt/OPBDITA (times)	4.7	5.3
Interest coverage (times)	3.4	4.3
NWC/OI (%)	26%	29%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	**Name of Instrument**	**Current Rating (2017)**			**Chronology of Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Date & Rating**	**Date & Rating in FY2017**	**Date & Rating in FY2016**	**-**
				July 2017	**June 2016**	**May 2015**	**-**
1	Term Loan	Long Term	15.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Working Capital Limits	Long Term	345.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	2013-2014	~9.0%	2020	15.0	[ICRA]A-(Stable)
Working Capital Limits	-	-	-	345.0	[ICRA]A-(Stable)

Contact Details

Analyst Contacts

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Harsh Jagnani
+91-124-4545394
harshj@icraindia.com

Deepak Jotwani
+91-124-4545870
deepak.jotwani@icraindia.com

Relationship Contact
Jayanta Chatterjee
+91-80-43326400
jayantac@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 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.

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	