

Sri Srinivasa Rice Mill (Mahendrawada)

June 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	6.00	6.00	[ICRA]BB- (Stable); Upgraded from [ICRA]B+(Stable)
Unallocated Limits	4.00	4.00	[ICRA]BB- (Stable); Upgraded from [ICRA]B+(Stable)
Total	10.00	10.00	

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB- (pronounced ICRA double B minus)¹ from [ICRA]B+ (pronounced ICRA B plus) for the Rs. 6.00 crore² working capital limits, and Rs 4.00 crore unallocated limits of Sri Srinivasa Rice Mill (Mahendrawada) (SSRM). The outlook on the long-term rating is 'Stable'.

Rationale

The rating upgrade factors consistent improvement in the financial profile over the past two years with increase in margins and lower working capital intensity leading to improved capital structure and coverage indicators. The rating also factors in long track record of the promoters in the rice milling industry and ease in paddy procurement due to proximity of the plant in major paddy cultivating region of the country. The rating considers favorable demand prospects of the industry with India being the second largest producer and consumer of rice internationally which augurs well for the firm.

The rating, however, is constrained by SSRM's small scale of operations in the intensely competitive rice milling industry restricting operating margins. The ratings also consider agro climatic risks, which can affect the availability of the paddy in adverse weather conditions and risks arising from partnership nature of the firm.

Outlook: Stable

ICRA believes SSRM will continue to benefit from the extensive experience of its partners in the rice milling industry. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

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

Significant experience of the promoter in the rice-milling and trading business - The promoters have established presence in rice milling industry with over three decades of experience resulting in established relationship with customers.

Improved capital structure and coverage indicators- The firm has moderate financial profile, which improved over the past two years with gearing improving to 0.2 times as on March 31, 2018 from 0.7 times as on March 31, 2017 due to lower working capital debt with reduced inventory. Coverage ratios indicated by NCA/total debt, and total Debt/OPBDITA improved to 37%, 1.2 x respectively in FY2018 from 11%, 4.3x respectively in FY2017.

Presence of the firm in major paddy-growing region – SRRM is in Mahendrawada village of East godavari district, Andhra Pradesh which is major rice growing area resulting in easy availability of paddy.

Favourable demand prospects for rice - Demand prospects of the rice industry are expected to remain good as rice is a staple food grain and India is the world's second largest producer and consumer of rice.

Credit weaknesses

Small scale of operations – The scale of operations of the firm has been small with installed capacity of 24000 metric tons of paddy per annum and revenues of Rs. 31.4 crore in FY2018, limiting its financial flexibility.

Highly competitive nature of industry – Rice milling industry is highly competitive with presence of a large number of organised and unorganised players impacting the margins.

Industry susceptible to agro-climatic risks -The rice-milling industry is susceptible to agro-climatic risks, which can affect the availability of the paddy in adverse weather conditions.

Risk related to partnership nature of the firm - The firm is exposed to the risks inherent to the partnership nature of firm including capital withdrawal risk.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Issuers in the Indian Rice Industry](#)

About the company:

Founded in 1978, Sri Srinivasa Rice Mill (Mahendrawada) (SSRM) is engaged in the milling of paddy and produces raw and boiled rice. The rice mill is located at Mahendrawada village in East Godavari district of Andhra Pradesh. Its installed production capacity is 24000 metric tons of paddy per annum.

According to provisional financials, SSRM has reported an operating income of Rs. 31.4 crore and net profit of 0.2 crore in FY2018 as against an operating income of Rs. 30.5 crore and net profit of Rs. 0.2 crore in FY2017.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	30.0	30.5
PAT (Rs. crore)	0.2	0.2
OPBDIT/ OI (%)	1.9%	2.5%
RoCE (%)	6.9%	9.7%
Total Debt/ TNW (times)	0.0	0.7
Total Debt/ OPBDIT (times)	0.4	4.3
Interest coverage (times)	3.5	2.5
NWC/ OI (%)	12%	21%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 2018	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
						March 2017	July 2016	
1 Fund based limits- Cash Credit	Long Term	6.00	6.00	[ICRA]BB-(Stable)	-	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]B+
2 Unallocated limits	Long Term	4.00	4.00	[ICRA]BB-(Stable)	-	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]B+

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	9.2%	NA	6.00	[ICRA]BB-(Stable)
NA	Unallocated Limits	NA	NA	-	4.00	[ICRA]BB-(Stable)

Source: SSRM.

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