

Sree Kamakshi Raw and Boiled Rice Mill

October 03, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	7.00	[ICRA]B+(Stable) assigned
Unallocated	3.00	[ICRA]B+(Stable) assigned
Total	10.00	

Rating action

ICRA has assigned long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 7.00 crore cash credit limits and Rs. 3.00 crore unallocated limits of Sree Kamakshi Raw and Boiled Rice Mill (SKRBRM, “the company”). The outlook on the long-term rating is ‘Stable’.

Rationale

The assigned rating is constrained by small scale of operations with revenue of Rs. 28.22 crore in FY2018 in the rice milling industry; intensely competitive nature of the rice industry which restricts the ability of the players to pass on hike in input costs and volatility in paddy prices and adverse change in regulations which will impact revenues and profitability margins. Moreover, the rating is also constrained by high working capital intensity due to seasonal availability of paddy with average working capital limit utilization of 94% in the last 12 months. The rating however takes comfort from longstanding experience of the promoters in rice milling industry; positive demand prospects for rice and favourable location of the plant ensuring easy availability of raw material which results in savings in logistic costs.

Outlook: Stable

ICRA believes SKRBRM will continue to benefit from the extensive experience of its partners in the rice milling business. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and efficient working capital management improves 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.

Key rating drivers

Credit strengths

Experienced promoters in rice milling industry spanning over 18 years – The firm was setup in 2000 by Mr. K. Suneel Kumar and Mr. Venkateswaralu K. The firm operates a non-basmati raw rice mill unit with capacity of 4 tons per hour and boiled rice mill unit of capacity 8 tons per hour. The rice is sold under “Double Hearts” brand.

Presence in major rice growing area results in easy availability of paddy - The milling unit is located in Nellore district of Andhra Pradesh. Paddy is procured majorly from farmers on cash basis. The price tends to be lower (and quality better) at the start of harvest as the produce starts coming in the market. Thus, the millers with surplus funds would prefer to buy close to the harvest and store till the next procurement season resulting in high inventory levels.

Credit challenges

Small scale of operations – Although the operating income increased from Rs. 20.05 crore in FY2015 to Rs. 28.22 crore in FY2018 on account of increase in volume of rice sold, the scale of operations remains small. The proportion of boiled rice sales has also increased over the years which has higher realisation than raw rice. The operating margins have been modest at 3.5% over the past 4 years and net margins are low between 0.2-0.3% due to high interest expenses.

Financial profile characterised by high gearing and weak coverage indicators – The gearing is high at 3.17 times as on March 31, 2018 owing to high debt levels. The company has Rs. 7.36 crore debt as on March 31, 2018 in which Rs. 6.43 crore is working capital borrowings and remaining Rs. 0.93 crore is unsecured loans from promoters. The debt coverage indicators are weak with TD/OPBDITA at 7.55, interest coverage at 1.17 due to lower operating profits in FY2018.

High working capital intensive nature of rice milling business – Rice milling is a working capital intensive business as the rice millers have to stock paddy by the end of each season till the next season as the price and quality of paddy is better during the harvesting season. Moreover, the paddy is procured from the farmers generally against immediate payments while the millers have to extend credit to wholesalers who sell rice to retailers. The working capital intensity has been around 30-36% for the last 3 years. The firm has been maintaining high inventory of 90-100 days at any given point of time due to the seasonality of the product. The debtor days have remained low between 20 to 30 days.

Revenues and margins exposed to paddy availability, volatility in prices and government regulations – The paddy availability and prices are dependent on agro-climatic conditions which would affect the revenues and margins. Also, rice industry is highly regulated by the government as it is seen as an important sector which could affect the food security of the country. Government intervenes in the non-basmati rice market through minimum support price (MSP) for paddy and export restrictions on rice.

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 Indian Rice Industry](#)

About the company:

Founded in 2000, M/s. Sree Kamakshi Raw and Boiled Rice Mill (SKRBRM) is located in Alipuram village of Nellore District. Mr. K. Suneel Kumar is the managing partner of the firm. The firm has one raw rice mill unit of 4 MTPH capacity and one boiled rice mill unit of 8 TPH capacity. During 2012, the raw rice mill was renovated, and old machineries were replaced. The rice is sold under “Double Hearts” brand. The firm’s clients are predominantly located in Kerala, Gujarat, Tamil Nadu and Karnataka.

Key financial indicators

	FY2016	FY2017	FY2018 (provisional)
Operating Income (Rs. crore)	22.86	24.75	28.22
PAT (Rs. crore)	0.04	0.01	0.05
OPBDIT/ OI (%)	2.79%	3.43%	3.46%
RoCE (%)	6.10%	7.64%	9.18%
Total Debt/ TNW (times)	3.90	3.38	3.17
Total Debt/ OPBDIT (times)	12.54	8.67	7.55
Interest coverage (times)	1.34	1.16	1.17

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 Oct 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Cash credit	Long Term	7.00	-	[ICRA]B+(Stable)	-	-	-
2 Unallocated	Long Term	3.00	-	[ICRA]B+(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: 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	FY2017	NA	NA	7.00	[ICRA]B+(Stable)
NA	Unallocated	NA	NA	NA	3.00	[ICRA]B+(Stable)

Source: SKRBRM

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