

Raghu Rama Rice Industry

October 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash credit	10.00	10.00	[ICRA]B+ (Stable); Upgraded from [ICRA]B (Stable), removed from Issuer not cooperating category
Fund based –Term loan	4.00	4.00	[ICRA]B+ (Stable); Upgraded from [ICRA]B (Stable), removed from Issuer not cooperating category
Unallocated Limits	2.00	2.00	[ICRA]B+ (Stable); Upgraded from [ICRA]B (Stable), removed from Issuer not cooperating category
Total	16.00	16.00	

Rating action

ICRA has upgraded the long-term rating to [ICRA]B+ (pronounced ICRA B plus)¹ from [ICRA]B (pronounced ICRA B) for the Rs.14.00 crore² fund-based limits and Rs. 2.00 crore unallocated limits of Raghu Rama Rice Industry (RRI). The outlook on the long-term rating is 'Stable'. The rating has also been removed from the 'Issuer Not Co-operating' category.

Rationale

The rating factors in the healthy revenue growth of ~34% in FY2018, aided by significant increase in capacity utilisation and sales volumes on the back of higher demand from Kerala. The rating also factors in the extensive track record of the promoters in the rice milling industry and ease in paddy procurement due to proximity of the plant to a major paddy cultivating region of the country. The rating considers the favourable 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 RRI's small scale of operations in the intensely competitive rice milling industry restricting operating margins. The rating considers RRI's moderate financial profile characterised by a moderate gearing, and stretched coverage indicators with an interest coverage ratio of 1.4 times and NCA/total debt of 4% for FY2018. The rating also considers constrained firm's liquidity position with high working capital intensity and high average utilisation of working capital limits. The ratings also consider the agro climatic risks, which can affect the availability of the paddy in adverse weather conditions and risks arising from the partnership nature of the firm.

Outlook: Stable

ICRA believes RRI 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 its liquidity position and 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 two decades of experience resulting in established relationship with customers.

Healthy growth in revenues in FY2018- The firm has recorded healthy revenue growth of ~34% in FY2018 aided by increase in sales volumes with improved demand for boiled rice in Kerala. The firm's capacity utilisation improved to 79% in FY2018 from 60% in FY2017.

Presence of the firm in major paddy-growing region – RRI is in Jagannadhagiri 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 challenges

Small scale of operations – The firm's scale of operations has been small with installed capacity of 43200 metric tonne of paddy per annum and revenues of Rs. 71.3 crore in FY2018, limiting its financial flexibility.

Moderate financial profile: The firm's financial profile is characterised by moderate gearing of 1.5 times as on March 31, 2018 and stretched coverage indicators with an interest coverage ratio of 1.4 times and NCA/total debt ratio of 4% in FY2018.

Constrained Liquidity: RRI's liquidity position has been constrained with high working capital intensity owing to stretched receivables and high inventory held by the firm. The same is reflected in high average working capital utilisation of ~94% for the period September 2017 to August 2018

Intense competition in the industry – The 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 - RRI 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 2012 as a partnership firm, RRI is engaged in milling of paddy and produces raw and boiled rice. The firm started its operations in June 2013. It has a milling unit in Jagannadhagiri village of East Godavari district of Andhra Pradesh with an installed capacity of 43200 metric tonne of paddy per annum.

SSRM has reported an operating income of Rs. 71.3 crore and net profit of 0.2 crore in FY2018 as against an operating income of Rs. 53.2 crore and net profit of Rs. 0.1 crore in FY2017.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	53.2	71.3
PAT (Rs. crore)	0.1	0.2
OPBDIT/ OI (%)	7.0%	4.8%
RoCE (%)	13.3%	12.6%
Total Debt/ TNW (times)	1.5	1.5
Total Debt/ OPBDIT (times)	3.4	3.7
Interest coverage (times)	1.3	1.4

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 October 2018	July 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 December 2015
1 Fund based - Cash credit	Long Term	10.00	-	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable)	[ICRA]B
2 Fund based - Term loan	Long Term	4.00	1.80	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable)	[ICRA]B
3 Unallocated Limits	Long Term	2.00	-	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable)	[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	10.00	[ICRA]B+ (Stable)
NA	Term loan	September 2013	8.9%	December 2020	4.00	[ICRA]B+ (Stable)
NA	Unallocated Limits	-	-	-	2.00	[ICRA]B+ (Stable)

Source: RRI.

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