

Sai Sannidhi Agro Tech

December 18, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	7.00	7.00	[ICRA]B+ (Stable) reaffirmed
Fund-based- Term Loan	1.00	1.00	[ICRA]B+ (Stable) reaffirmed
Total	8.00	8.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to derive comfort from the extensive experience of the promoters in the rice-milling business, presence of the firm in a major paddy-growing area resulting in easy availability of the raw material and low transportation cost. The rating takes into account the growth in revenues and improvement in the operating margins of the firm during FY2018; however, these are partially offset by increase in gearing following higher working capital intensity in FY2018. ICRA notes the favourable demand prospects for rice as India is the second largest producer and consumer of rice, internationally.

However, the rating continues to be constrained by the modest scale of operations in the intensely competitive rice milling industry, coupled with limited value-additive nature of the business, constraining the pricing flexibility of the firm. The rating considers the firm's moderate financial profile characterised by moderate gearing, and coverage indicators and high working capital intensity owing to increase in inventory holding in FY2018. The rating factors in the susceptibility of revenues and profitability to agro-climatic conditions, which can affect the availability of the paddy in adverse weather conditions. ICRA also takes note of the risk arising from the partnership constitution of SSAT.

Outlook: Stable

ICRA believes SSAT will continue to benefit from the extensive experience of its partners in the rice milling industry. The outlook may be revised to Positive if there is substantial growth in its revenue and profitability along with an improvement in the firm's working capital intensity. The outlook may be revised to Negative if there is any adverse regulatory change or volatility in raw material prices, which results in weakening of the liquidity position or further increase in debt levels.

Key rating drivers

Credit strengths

Significant experience of the partners in the rice-milling industry - The firm is involved in milling of paddy to produce raw and steamed rice and derives 100% of its revenues from the domestic market. The partners are involved in the business of rice milling for more than a decade, which helps the firm in managing the business risks effectively.

Presence of the firm in a major paddy-growing area, which results in easy availability of the raw-material - The firm's plant is located in Raichur, which is surrounded by paddy-cultivation areas, resulting in easy procurement of paddy with low transportation cost for the firm. All the paddy requirements are met locally through direct purchases from farmers and occasionally from traders.

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

Credit challenges

Modest scale of operations - The firm's scale of operations is modest with installed capacity of 43,200 metric tonne of paddy per annum and revenues of Rs. 42.45 crore in FY2018, limiting its financial flexibility.

Moderate financial profile of the firm - The firm's financial profile is characterised by leveraged capital structure with a gearing of 3.93 times as on March 31, 2018. The coverage indicators also remain moderate with an interest coverage ratio of 2.18 times and NCA/total debt ratio of 7.23% for FY2018. Further, the working capital intensity has increased to 23.84% in FY2018 owing to high inventory held by the firm.

Intense competition in the industry keeps margins under check - Rice-milling industry is highly competitive with presence of a large number of organised and unorganised players. Intense competition coupled with limited value-additive nature of the business limits the margins.

Susceptibility to agro-climatic risks - The rice-milling industry is susceptible to agro-climatic conditions which can affect the availability of the paddy in adverse weather conditions. The revenues and margins of the firm are exposed to availability and price fluctuations in paddy.

Risks inherent to the partnership nature of the firm - SSAT is exposed to risks associated with partnership firms including capital-withdrawal risks.

Liquidity position

The firm has outstanding term loan of Rs. 0.19 crore as on March 31, 2018. The loans are scheduled to be fully repaid by FY2019. It has been sanctioned additional term loans of Rs. 0.60 crore in FY2019 for capex funding which are yet to be released by the bank. Going forward, the cash accruals are expected to be sufficient to meet the repayment obligations towards the loans. Additionally, it has cash credit facility of Rs. 7.00 crore, average utilizations for which stood at 61% for the period of March 2018 to October 2018. The firm has limited buffer from undrawn working capital limits and cash and liquid investments.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Indian Rice Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements of the issuer.

About the company

Sai Sannidhi Agro Tech was founded in 2012 and is involved in milling of paddy and produces raw rice and steamed rice. The firm started its commercial production in February 2013 and is located in Manvi village in Raichur district, Karnataka. The installed production capacity of the rice mill is 6 tonnes per hour. The firm is a part of the MRV Group, which also owns other entities involved in similar business.

In FY2018, the firm reported a net profit of Rs. 0.68 crore on an operating income (OI) of Rs. 42.45 crore, as compared to a net profit of Rs. 0.67 crore on an OI of Rs. 39.16 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	39.16	42.45
PAT (Rs. crore)	0.67	0.68
OPBDITA/OI (%)	3.69%	4.26%
RoCE (%)	15.42%	14.85%
Total Debt/TNW (times)	2.15	3.93
Total Debt/OPBDITA (times)	3.34	5.87
Interest coverage (times)	2.66	2.18

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 as on March 2018 (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018	April 2017	June 2016	May 2015
1 Cash Credit	Long Term	7.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B	[ICRA]B
2 Term Loan	Long Term	1.00	0.19	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B	[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	NA	NA	7.00	[ICRA]B+ (Stable)
NA	Term Loan	March 2014	NA	FY2019	1.00	[ICRA]B+ (Stable)

Source: Sai Sannidhi Agro Tech

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