

June 20, 2019

Sri Ramalingeswara Modern Rice Mill: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	80.00	80.00	
Long Term - Fund Based TL	2.54	0.43	[ICRA]BBB-(Stable); reaffirmed
Long Term - Unallocated	0.46	2.57	
Total	83.00	83.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the extensive experience of Sri Ramalingeswara Modern Rice Mill's (SRMRM) promoter in the rice milling industry and the established brand name of 'Cow & Calf' in Andhra Pradesh. The firm enjoys considerable location-specific advantage due to its presence in a major rice-growing area of Andhra Pradesh, which results in easy availability of paddy. The rating considers the firm's average-sized scale of operations with an operating income (OI) of Rs. 375.69 crore in FY2019 and healthy capacity utilisation levels of the plant over the past two years.

The rating is, however, constrained by its moderate financial risk profile with a gearing of 1.32 times as on March 31, 2019, interest coverage of 2.73 times and Debt/OPBDIT at 3.86 times for FY2019. The intense competition in the rice industry amid several small-scale players, limits the pricing flexibility of industry participants. The firm remains exposed to high geographical concentration with 86% of sales in FY2019 within Andhra Pradesh. Further, its operations are susceptible to raw material availability, the quality and pricing of which depends on monsoon, climatic conditions and the Government's regulations. The rating also considers risks inherent to the partnership nature of the firm.

Going forward, SRMRM's ability to improve its revenue, profitability and efficiently manage its working capital requirements will be the key credit rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that SRMRM will continue to benefit from the extensive experience of its promoters in the rice industry and its established brand presence in Andhra Pradesh. 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 its liquidity.

Key rating drivers

Credit strengths

Established track record and vast experience of the promoter in the rice milling business: SRMRM was established as a partnership firm in 1982 by Mr. Krishna Reddy. He has been involved in rice milling industry for more than three decades.

Well-established brand in Andhra Pradesh: Over the years, SRMRM has been able to develop a strong brand presence primarily in Andhra Pradesh enabling it to achieve a steady increase in its scale of operations. The firm sells all its produce in the brand name of Cow & Calf.

Presence in major rice-growing area results in easy availability of paddy: The firm's milling unit is located in the East Godavari district of Andhra Pradesh, which is a major rice-growing area resulting in easy availability of paddy. It has a milling capacity of 18 MTPH and reported capacity utilisation levels of the plant over the past two years. The demand prospects for rice, a staple food grain, remain favourable with India being the world's second largest producer and consumer of rice.

Credit challenges

Moderate financial risk profile: The financial risk profile remained moderate with a gearing of 1.32 times as on March 31, 2019, interest coverage of 2.73 times and Debt/OPBDIT at 3.86 times for FY2019. The firm's debt profile is dominated by working capital borrowing.

High working capital intensity: The rice milling business is working capital intensive in nature, with high requirement to stock paddy as the firm is involved in selling one-year and two-year aged rice. With high inventory days at 105 days in FY2019, it reported a high average working capital limit of 88% in the past 15-month period that ended in March 2019.

Intense competition in the rice industry: The fragmented nature of the rice industry results in stiff competition, which limits the pricing flexibility of the industry participants. This keeps the profitability at modest levels. However, the well-known brand name of Cow & Calf supports the firm's margins to an extent.

Susceptibility to agro-climatic risks and changes in Government regulations: The rice milling industry is susceptible to agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. Fluctuations in supply, in turn, expose SRMRM to price volatility risks. Moreover, changes in Government regulations pertaining to the rice industry can impact the industry dynamics.

Risk related to partnership nature of the firm: SRMRM is exposed to the risks inherent to a partnership firm, including the capital withdrawal risk. However, no capital withdrawals were observed in the past five years.

Liquidity position

SRMRM's liquidity position remains moderate, as evident from 88% average utilisation of fund-based limits between January 2018 and March 2019. As the firm does not have any major capacity expansion plans in the medium term, the liquidity profile is expected to remain moderate. Further, ICRA does not foresee any major concerns on its liquidity due to limited burden of term debt repayments, besides minimal requirement of incremental working capital funding.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Rice Millers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the firm.

About the company

Founded in 1982 as a partnership firm, SRMRM is involved in the milling of paddy to produce raw and boiled rice. The rice mill is located at Penuguduru village of East Godavari district, Andhra Pradesh. The firm's operations are overseen by its Managing Partner, Mr. S. Krishna Reddy, who has been involved in the rice milling industry for more than three decades. The installed production capacity of the rice mill is 18 tonne per hour. SRMRM sells all its products under the brand name of Cow & Calf.

Key financial indicators

	FY2018	FY2019*
Operating Income (Rs. crore)	368.49	375.69
PAT (Rs. crore)	8.30	8.46
OPBDIT/OI (%)	5.00%	4.99%
RoCE (%)	14.04%	13.76%
Total Debt/TNW (times)	1.73	1.32
Total Debt/OPBDIT (times)	4.34	3.86
Interest Coverage (times)	2.81	2.73

*Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating June 2019	Date & Rating in FY2019 Aug 2018	Date & Rating in FY2018 June 2017	Date & Rating in FY2017 Sep 2016
1 Cash Credit	Long Term	80.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2 Term loan	Long Term	0.43	0.43	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
3 Unallocated limit	Long term	2.57	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)

Source: SRMRM

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
-	Cash Credit	-	-	-	80.00	[ICRA]BBB-(Stable)
-	Term loan	October 2013	-	June 2019	0.43	[ICRA]BBB-(Stable)
-	Unallocated Limits	-	-	-	2.57	[ICRA]BBB-(Stable)

Source: SRMRM

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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