

September 01, 2020

Sri Lakshmi Srinivasa Hi-Tech Industries: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – CC	12.00	12.00	[ICRA]BB-(Stable); reaffirmed
Fund based – TL	0.39	0.24	[ICRA]BB-(Stable); reaffirmed
Unallocated	3.31	3.46	[ICRA]BB-(Stable); reaffirmed
Total	15.70	15.70	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in rating continues to factor in Sri Lakshmi Srinivasa Hi-Tech Industries' (SLSHI) small scale of operations with a decline in its revenue in FY2020 due to reduced sales volume in a highly fragmented and competitive rice milling industry. The rating is also constrained by the firm's moderate financial profile, characterised by thin margins, low net worth, moderate gearing and coverage indicators. The rating factors in the susceptibility of SLSHI's revenues and profitability to agro-climatic risks, as the availability of paddy can be affected by adverse weather conditions. The firm is also exposed to the inherent risks of capital withdrawal associated with partnership entities.

The rating, however, continues to derive comfort from the extensive experience of its partners in the rice milling industry and easy availability of paddy because of the proximity of SLSHI's facility to major paddy-cultivating regions in northern Karnataka. The rating also takes into account the adequate liquidity position of SLSHI with improvement in working capital intensity. ICRA considers the favourable demand prospects of the rice industry because of the country's growing population, with India remaining one of the largest producers and consumers of rice.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that SLSHI will continue to benefit from the extensive experience of its partners in the rice milling business and long term favorable demand prospects.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in rice milling business – The promoters of the firm are involved in the rice milling business for over two decades and have established relationships with its suppliers and customers. **Proximity to rice-growing areas** – The firm's plant is located at Raichur, which is surrounded by areas such as Maanvi, Sindhnoor and Gangavathi, where a major part of the paddy is cultivated. This results in low transportation cost for the firm and easy availability of paddy at a competitive rate. SLSHI's paddy requirements are met locally through direct purchases from farmers.

Favourable long-term demand outlook – The demand prospects of the rice industry are expected to remain favourable, supported by India's growing population with rice remaining a staple food grain in the country. Moreover, India is the world's second largest consumer of rice, apart from being a leading exporter, though more in the Basmati rice segment.

Credit challenges

Small scale of operations with moderate financial profile – SLSHI is a small-scale player with revenues of Rs. 51.91 crore in FY2020, declining from Rs. 58.26 crore in FY2019 owing to lower sales volumes. Small scale of operations and low net worth restrict the firm's operational and financial flexibility to some extent.

While SLSHI's scale is low, its profitability margin has remained modest (net margin of 1.7% in FY2020). Further, lower working capital borrowings resulted in improved gearing at 1.49 times as on Mar 31, 2020 from 2.54 times as on Mar 31, 2019), even as networth continues to be low. The debt coverage indicators remained moderate with interest coverage of 2.28 times, DSCR of 1.85 times and TD/OPBITDA of 3.56 times in .

Intense competition in industry – Owing to low entry barriers and the presence of numerous unorganised and organised players, along with readily available technology and proximity to rice-cultivating belt, the firm faces intense competition for paddy procurement. This affects volumes and pricing flexibility of rice millers like SLSHI.

Inherent agro-climatic risks and vulnerability to changes in Government policies – The rice milling industry is susceptible to agro-climatic risks (which can affect the availability of paddy in adverse weather conditions), epidemics in paddy crop or a shift of farmers to other cash crops and cyclicity. Moreover, it is exposed to Government policies such as minimum support price, affecting the raw material cost, which in turn will impact the margins

Inherent risks associated with partnership nature of business – SLSHI is exposed to risks associated with partnership firms including limited ability to raise capital and capital withdrawal by partners, which could adversely impact its capital structure.

Liquidity position: Adequate

SLSHI's cash flow from operation was positive in FY2020 owing to lower working capital requirement on the back of lower inventory holding. The average working capital utilization remained moderate at ~68% of the sanctioned limit of Rs. 12.00 crore for the period covering July 2019 to June 2020. The firm has also availed a Covid loan of Rs. 1.00 crore under Covid-19 relief package which is to be repaid in two years with a moratorium period of 6 months. The firm has a repayment of Rs. 0.12 crore towards vehicle loan in FY2020 and FY2021. Overall, the liquidity position is **adequate** with moderate working capital utilisation coupled with modest repayment obligation.

Rating sensitivities

Positive triggers – ICRA could upgrade SLSHI's rating if the firm demonstrates a sustained improvement in its revenues and profits, leading to improved coverage indicators. Specific credit metrics that may lead to an upgrade of SLSHI's rating include interest coverage of above 2.5 times on a sustained basis.

Negative triggers – Negative pressure on SLSHI's rating could arise if a further decline in revenues or margins lead to weakened coverage indicators. Specific credit metrics that could lead to a downgrade include, TD/OPBDITA more than 5.0 times. Any withdrawal of capital or increase in working capital intensity leading to stretch in liquidity position can also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the India Rice Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financials of the firm

About the company

Incorporated in 2011, SLSHI (a partnership firm) is involved in the milling of paddy to produce rice. The firm's major products include boiled rice, raw rice, bran, broken rice and husk. The firm commenced its operations in March 2013 with a new plant, set up over an area of 2 acres in Raichur district of Karnataka, with a capacity to process 8 MT of paddy per hour. Although the firm's operations have commenced only in FY2013, the promoters have been involved in a similar business for more than two decades. The firm sells raw rice under the brands 'Tammina', 'Tennis', 'Miracle', 'Sunday to Monday' and 'Light house'. The broken rice is sold under the brand names of 'Multi Raju' and 'Sunday to Monday'.

In FY2020, on a provisional basis, the firm reported a net profit of Rs. 0.88 crore on an operating income (OI) of Rs. 51.91 crore compared to a net profit of Rs. 1.02 crore on an OI of Rs. 58.26 crore in FY2019.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	58.26	51.91
PAT (Rs. crore)	1.02	0.88
OPBDIT/OI (%)	5.28	5.40
RoCE (%)	12.20	12.41
Total Outside Liabilities/Tangible Net Worth (times)	2.61	1.56
Total Debt/OPBDIT (times)	5.05	3.56
Interest Coverage (times)	2.38	2.28
DSCR	2.20	1.85

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					01-Sep-2020	06-Aug-2019	01-Aug-2018	10-Aug-2017
1	Cash Credit	Long Term	12.00	-	[ICRA]BB- (Stable); reaffirmed	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2	Term Loan	Long Term	0.24	0.24	[ICRA]BB- (Stable); reaffirmed	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
3	Unallocated	Long Term	3.46	-	[ICRA]BB- (Stable); reaffirmed	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	12.00	[ICRA]BB- (Stable)
NA	Term Loan	FY2015	NA	FY2021	0.24	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	3.46	[ICRA]BB- (Stable)

Source: SLSHI

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