

January 08, 2020

Sri Lakshmi Srinivas Parboiled: [ICRA]B- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital	6.91	[ICRA]B- (Stable); Assigned
Term Loan	3.72	[ICRA]B- (Stable); Assigned
Non-fund Based	0.87	[ICRA]B- (Stable); Assigned
Total	11.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating considers Sri Lakshmi Srinivas Parboiled's (SLSP) execution risk arising due to delay in project commissioning which might lead to cost overrun. The rating is also constrained by the significant debt-funded capital expenditure planned to be incurred towards setting up of rice mill unit which might lead to leveraged capital structure and moderate debt protection metrics for the firm in the initial years. Moreover, intense competition in the industry and limited value additive nature of the business might restrict its pricing flexibility and its margins will be exposed to fluctuation in paddy procurement prices. The ratings also consider the agro-climatic risks that can affect the availability and price of paddy in adverse weather conditions. Besides, risk of capital and profit withdrawals as the entity is set up as a partnership firm is the other rating concern.

However, the rating favourably factors in the partner's extensive experience for almost two decades in the rice milling industry and easy availability of paddy because of its proximity to major paddy cultivating regions in northern Karnataka. ICRA also considers the favourable demand prospects of the rice industry because of India's growing population and also because India is one of the largest producers and consumers of rice.

The Stable outlook on the [ICRA]B- rating reflects ICRA's opinion that SLSP will benefit from the extensive experience of its partners in the rice milling industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in rice milling industry – The partners of the firm is involved in the rice milling business for over two decades. The partners are also runs another rice mill industry in Raichur in the name of Sri Lakshmi Srinivasa Hi-Tech Industry ([ICRA]BB- (Stable)) since 2011 and have gained vast experience from the company.

Presence in major paddy cultivating area – The firm's plant is located in Raichur, which is surrounded by paddy cultivating areas such as Manvi, Sindhnoor, Gangawati and Davangere. Mostly, paddy prices are above the MSP from local farmers, which result in easy procurement of paddy with low transportation cost.

Favourable demand prospects of rice – The demand prospects of the rice industry are expected to remain favourable because of India’s growing population as rice is a staple food grain in the country and India is the world’s second largest consumer of rice.

Credit challenges

Preliminary stage indicating execution risk – SLSP is in a project phase. The firm is facing a challenge of timely commissioning of the project (i.e. the commercial production should have started in January 2020 but delayed to March 2020) without any cost overrun. Also, the ability of the firm to scale up its operation while achieving standard operating metric (i.e. capacity utilisation and yield) needs to be seen.

Debt funded capex – SLSP has a significant debt funded capex planned to set up its milling unit which might lead to leveraged capital structure and moderate debt protection metrics.

Intense competition, given the limited value additive nature of business – The rice-milling industry remains highly fragmented and competitive in nature owing to the presence of numerous unorganised and organised players on account of low entry barriers in terms of technology and investments.

Industry susceptible to agro-climatic and governance risks – 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 cyclicalities. Moreover, it is exposed to Government policies such as minimum support price, affecting the raw material cost, which in turn will hit the margins.

Risk related to partnership nature of the firm – SLSP is exposed to the risks inherent to the partnership nature of the firm, including the capital withdrawal risk.

Liquidity position: Adequate

The firm’s liquidity position is expected to be **adequate**. The firm has been sanctioned a cash credit limit of Rs. 6.91 crore which will be disbursed once the commercial production starts (i.e. expected in February 2020). The firm has also sanctioned a term loan of Rs. 3.72 crore out of which they have drawn Rs. 2.38 crore till December 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade SLSP’s rating if there is a timely commissioning of the project without any cost overrun followed by satisfactory ramp up of operations in FY2021. Specific credit metrics that could lead to an upgrade of SLSP’s rating include DSCR of more than 1.1 times on a sustained basis.

Negative triggers – Negative pressure on SLSP’s rating could arise if, for reasons there is a delay in commissioning of project leading to cost overrun. Also, lack of timely financial support from promoters to cover the fixed expenses till the project stabilizes can lead to a downward pressure on the rating.

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	The ratings are based on the standalone financial profile of the firm

About the company

Incorporated in June 2020, Sri Lakshmi Srinivas Parboiled (SLSP) is in the process of setting up a manufacturing unit for the production and processing of polished rice and rice products with the processing capacity of 5MTPH in Manchalapur district of Raichur, Karnataka. The firm's major products will include boiled rice, raw rice, bran, broken rice and husk. The firm will sell its product under the name and style of "Sri Lakshmi Srinivas Parboiled".

Key financial indicators

Not applicable since the firm is yet to start the operation.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					08-Jan-2020			
1	Cash Credit	Long Term	6.91	-	[ICRA]B- (Stable)	-	-	-
2	Term Loan	Long Term	3.72	2.55	[ICRA]B- (Stable)	-	-	-
3	Non Fund Based	Long Term	0.87	-	[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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	FY2020	8.90%	NA	6.91	[ICRA]B- (Stable)
NA	Term Loan	FY2020	8.90%	FY2027	3.72	[ICRA]B- (Stable)
NA	Non Fund Based	NA	NA	NA	0.87	[ICRA]B- (Stable)

Source: SI

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