Sri Ramachandra Pooja Industries

January 13, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	7.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**7.00 (Rs. Seven Crore Only)**		

Details of instruments/facilities in Annexure

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from of Sri Ramachandra Pooja Industries to monitor the rating(s) vide e-mail communications dated September 07, 2020 to December 30, 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating. The rating on Sri Ramachandra Pooja Industries bank facilities will now be denoted as CARE B; Stable; ISSUER NOT COOPERATING*

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The rating has been revised on account of non-availability of requisite information due to non-cooperation by Sri Ramachandra Pooja Industries, with CARE'S efforts to undertake a review of the rating outstanding, as CARE views information availability risk as key factor in its assessment of credit risk profile. However, the ratings continuous to be tempered by small scale of operations, seasonal nature of availability of paddy resulting in working capital intensive nature of operations and partnership nature of constitution with inherent risk of withdrawal of capital and marginal deterioration in capital structure, debt coverage indicators and working capital cycle The rating is, however, continues to be underpinned by the established track record and experience of partner for more than two decades in rice milling industry, stable total operating income during FY19 (Prov.), healthy demand outlook of rice and location advantage with presence in cluster and easy availability of paddy.

Detailed description of the key rating drivers

At the time of last press release dated November 19, 2019 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Small scale of operations and thin profitability margins

The scale of operations continued to remain small at total operating income of Rs.38.50 crore in FY19 (Prov.) with a small net worth of Rs.4.40 crore as on March 31, 2019 (Prov.). The net worth has improved from Rs.3.96 crore in FY18 on back of accretion of profits to the reserves.

The profitability margin increased marginally, by 16 bps, from 1.55% in FY18 to 1.71% in FY19 (Prov.) on back of reduced cost of raw material. The PAT margin stood stable at 0.12% in FY19 (Prov.) due to increase in the interest cost on back of increase in the working capital utilization to fund the day-to-day business needs.

Marginal deterioration in capital structure, weak debt coverage indicators and operating cycle

The capital structure of the firm marked by overall gearing deteriorated from 1.27x as on March 31, 2018 to 1.60x as on March 31, 2019 (Prov.) due to increased working capital for funding the day-to-day business of the firm despite an increase in the net worth of the firm and repayment of long-term loan.

The debt coverage indicators of the firm continued to remain weak, and declined, marked by total debt/GCA, from 35.65x in FY18 to 54.52x in FY19 (Prov.) due to increase in total debt on back of increase in the working capital balance on the balance sheet date. The PBILDT interest coverage ratio, declined marginally from 1.20x in FY18 to 1.15x in FY19 (Prov.) due to increase in interest expenses. TD/CFO declined and stood negative at 3.80x in FY19 (Prov.) due to negative working capital changes resulting from an increase in the receivables on as balance sheet date.

The operating cycle of the firm increased and stood at 92 days in FY19 (Prov.) as against 78 days in FY18 on back of increase in the average inventory period from 55 days in FY18 to 69 days in FY19 (Prov.) to meet the demand for rice. The firm receives the payment from its customer within 45-60 days and makes the payment to its supplier within 5-10 days.

The firm holds the average inventory of around 60-80 days to meet the requirement of customer as on need basis. The average utilization of working capital limit stood at ~98% for the last 12 month ended October 31, 2019.

Seasonal nature of availability of paddy resulting in working capital intensive nature of operations
Paddy in India is harvested mainly at the end of two major agricultural seasons Kharif (June to September) and Rabi (November to April). The millers have to stock enough paddy by the end of the each season as the price and quality of paddy is better during the harvesting season. During this time, the working capital requirements of the rice millers are generally on the higher side. Majority of the firm's funds of the firm are blocked in inventory and with customers. Moreover, the paddy is procured from the farmers generally against cash payments or with a minimal credit period of 5-10 days while the millers have to extend credit to the wholesalers and distributors around 20-30 days resulting in high working capital utilization reflecting working capital intensity of business.

Partnership nature of constitution with inherent risk of withdrawal of capital
SRPI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth. However, the partners infused capital of Rs.0.39 crore during FY19 (Prov.).

Key Rating Strengths
Established track record and experience of partner for more than two decades in rice milling industry
SRPI was promoted by Mr. Krishna Rao (Managing Partner), Mr. Subba Rao (partner) and his family members. Partners have around 25 years of experience in rice processing business. Through his experience in the rice processing, they have established healthy relationship with key suppliers, customers, local farmers, dealers and also with the brokers facilitating the rice business within the state.

Stable total operating income during FY19 (Prov.)
The total operating income remained almost stable at Rs.38.50 crore in FY19 (Prov.) as against Rs.38.48 crore in FY18 on back of demand from existing customers remaining almost stable

Healthy demand outlook of rice
Rice is consumed in large quantity in India which provides favorable opportunity for the rice millers and thus the demand is expected to remain healthy over medium to long term. India is the second largest producer of rice in the world after China and the largest producer and exporter of basmati rice in the world. The rice industry in India is broadly divided into two segments – basmati (drier and long grained) and non-basmati (sticky and short grained). Demand of Indian basmati rice has traditionally been export oriented where the South India caters about one-fourth share of India's exports. However, with a growing consumer class and increasing disposable incomes, demand for premium rice products is on the rise in the domestic market. Demand for non-basmati segment is primarily domestic market driven in India. Initiatives taken by government to increase paddy acreage and better monsoon conditions will be the key factors which will boost the supply of rice to the rice processing units. Rice being the staple food for almost 65% of the population in India has a stable domestic demand outlook. On the export front, global demand and supply of rice, government regulations on export and buffer stock to be maintained by government will determine the outlook for rice exports.

Location advantage with presence in cluster and easy availability of paddy.
The rice milling unit of SRPI is located at Koppal district which is the top district for producing rice in Karnataka. The manufacturing unit is located near the rice producing region, which ensures easy raw material access and smooth supply of raw materials at competitive prices and lower logistic expenditure.

Analytical approach: Standalone
Applicable criteria
Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
Definition of Default
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Manufacturing Companies

About the Firm
Sri Ramachandra Pooja Industries (SRPI) was established in 1993 as a partnership firm. SRPI is engaged in milling and processing of rice. The rice milling unit of the firm is located at Bevinahal Po: Karatagi, Gangavathi, Koppal, Karnataka. Apart from rice processing, the firm is also engaged in selling off bi-products such as broken rice, husk and bran. The main

raw material, paddy, is directly procured from local farmers located in and around Koppal District and the firm sells rice and other by-products in Chennai, Tamilnadu, Andhra Pradesh, Mumbai, Bangalore etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	38.48	38.50
PBILDT	0.60	0.66
PAT	0.04	0.05
Overall gearing (times)	1.27	1.60
Interest coverage (times)	1.20	1.15

A-Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified 'Sri Ramachandra Pooja Industries' as "Not Cooperating" vide its press release dated December 17, 2020

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE B; Stable; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (19-Nov-19) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (17-Jun-19)	1)CARE BB-; Stable (13-Jul-18)	-

**Issuer did not cooperate; based on best available information*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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